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NO. 22221

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

UNITED STATES OF AMERICA,

Appellant,

vs.

EDWARD ELLSWORTH WILSON,

Appellee.

APPELLANT'S OPENING BRIEF

APPEAL FROM
THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA

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APPELLANT'S OPENING BRIEF

I.

STATEMENT OF THE PLEADINGS AND FACTS DISCLOSING JURISDICTION.

On June 7, 1967, the federal grand jury for the Southern District of California returned a two-count indictment (No. 1198-SD) charging appellee Edward Ellsworth Wilson and Jeffrey Norman Herwitz in Count One with a violation of Title 21, United States Code, Section 176(a), namely illegal importation of marihuana. In Count Two appellee Edward Ellsworth Wilson and Jeffrey Norman Herwitz were charged with a violation of Title 21, United States Code, Section 176(a), namely concealment and transportation of illegal imported marihuana. Transcript of Record, pp. 1-2.

On June 19, 1967 appellee Edward Ellsworth Wilson entered a plea of not guilty to both counts of the indictment. Id. at 3. On June 28, 1967,

appellee made a motion to suppress evidence and statements. Id. at 4. On July 26-27, evidence was taken in connection with the motion to suppress. Id. at 18-20. On August 3, 1967, the Honorable Fred Kunzel granted the motion to suppress, and filed a written order to that effect. Id. at 21-25.

On August 8, 1967 appellant filed a timely Notice of Appeal and a Certificate of Appeal Not for Purposes of Delay. Id. at 26-28. On August 30, 1967 appellant filed the Designation of Record on Appeal. Id. at 29. On October 17, 1967 appellant filed the Statement of Points. Id. at 33.

The offenses occurred in the Southern District of California, and jurisdiction of the District Court was based on Title 21, United States Code, Section 176(a) and Title 18, United States Code, Section 3231. The jurisdiction of the United States Court of Appeals for the Ninth Circuit is based on Title 18, United States Code, Section 1404, and Title 28, United States Code, Section 1294.

II.

STATUTES INVOLVED

Title 21, United States Code, Section 176(a) reads in pertinent part as follows:

> "Notwithstanding any other provision of law, whoever knowingly, with intent to defraud the United States, imports or brings into the United States marihuana contrary to law, or smuggles or clandestinely introduces into the United States marihuana which should have been invoiced, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or

sale of such marihuana after being imported or brought in, knowing the same to have been imported or brought into the United States contrary to law, . . . shall be imprisoned not less than five or more than twenty years, and in addition, may be fined not more than $20,000 . . . ."

Title 18, United States Code, Section 1404 reads in pertinent part as follows:

"In addition to any other right to appeal, the United States shall have the right to appeal from an order granting a motion for the return of seized property and to suppress evidence made before the trial of a person charged with a violation of . . . (2) subsection (c), (h), or (i) of section 2 of the Narcotic Drugs Import and Export Act, as amended, ..."

"This section shall not apply with respect to any such motion unless the United States attorney shall certify, to the judge granting such motion, that the appeal is not taken for purposes of delay. Any appeal under this section shall be taken within 30 days after the date the order was entered and shall be diligently prosecuted."

Section 2(c) of the Narcotic Drugs Import and Export Act is Title 21 U.S.C. Section 174. Section 2(h) is 21 U.S.C. Section 176(a). Section 2(i) is 21 U.S.C. Section 176(b). Narcotic Control Act of 1956, Pub. L. No. 728, ch. 629, Title 1, §§105, 106, 107, 70 Stat. 570-71.

III.

STATEMENT OF THE CASE

A. Questions Presented

1. Did the District Court err in granting the motion to suppress the one hundred pounds of marihuana?

2. Did the District Court err in granting the motion to suppress the statements made by the defendant prior to his being taken before the United States Commissioner?

B. Statement of the Facts

On Sunday, May 14, 1967, Mother's Day, at approximately 1:00 p.m., defendant arrived at the air freight office of United Airlines at the San Diego International Airport, Reporter's Transcript, pp. 2, 29 [hereinafter abbreviated as R.T.]. On duty for the airline at that time were Mitchell Goss and Charles Dowling. Id. at 2, 28. Defendant drove up to the air freight office in a red Plymouth Valiant, which he parked diagonally in front of the building instead of within the parking stalls. Id. at 29. This unusual method of parking placed defendant's vehicle close to the scale. Id. at 4. Defendant opened the trunk of his vehicle and told Dowling that he had a couple of cases of personal effects that he desired to send to New York. Dowling assisted him in removing the items from the trunk, and then weighed the cartons. Id. at 29.

The two items in question were cardboard cartons, approximately three feet long, a foot high, and a foot and a half in width. Id. at 7, 30. A

combination lock had punched its way through the cardboard, and a footlocker was visible within. Id. at 29. The flaps of the cartons were sealed down with regular gum paper or tape. Id. at 7, 30. Moreover, there was a rope around each of the cartons. Id. at 30.

Defendant and Dowling went inside the freight office, and relayed the information as to the weight of the cartons to Goss. Id. at 29. Defendant indicated to Dowling that the cartons contained personal effects, and he told Goss that they contained wearing apparel. Id. at 29, 3. Goss made out the air waybill. Id. at 3, 6. Defendant gave his identity as Mr. J. Johnson, 1214 Thomas Street, San Diego, California, and paid the $29.69 charge for the air freight with a fifty dollar bill. Id. at 6. The total weight of the two cartons was one hundred thirty-six pounds. Id.

Goss became suspicious of defendant prior to defendant's departure from his office, id. at 4, although there was nothing unusual about the defendant's demeanor or appearance. Id. Part of Goss' suspicious attitude arose from the nature of the cargo that defendant was shipping. Id. The previous day, May 13, 1967, at about 6:00 a.m., when Goss arrived at work, he had received a long distance telephone call from one of his supervisors in Los Angeles. Id. at 4-5. The phone call alerted Goss to the fact that he had signed an air waybill for a shipment of footlockers containing marihuana. Id. at 5. He was informed that marihuana was being shipped in new footlockers with cheap padlocks or combination locks on them, id., and green or blue in color. Id. Goss was also told to be on the lookout for such shipments, and to call law enforcement agents for any assistance that he could get. Id. at

9-10. Finally, Goss was informed that the Los Angeles department had found marihuana in such footlockers on four separate occasions within the last week. Id. at 11-12. After receipt of this phone call, Goss called the San Diego Police Department on Saturday, May 13, 1967 and inquired of them as to their knowledge of such activities. Id. at 12. The police gave no specific directions on any procedure to follow if he received any more such shipments, but merely informed him that Goss should give the police a call in case he needed help or such on contraband material. Id.

Goss was also suspicious of defendant because of the manner in which the defendant parked his vehicle at the air freight office. Id. at 4.

Upon defendant's departure from the air freight office, Goss looked out of the door and secured the license number of the car, although he did not notice the make or color of the vehicle. Id. at 20. His main concern at that moment was to get the license plate number. Id.

After defendant had departed the premises, Goss asked Dowling to bring in one of the cartons. Id. at 5. Dowling took one inside and in the presence of Goss cut the rope off, split the label sealing the flaps down, and turned the carton upside down. Id. at 31, 32. Inside this carton was discovered a footlocker, id. at 5, 31, either green (id. at 31) or blue (id. at 8) in color.

When Goss asked Dowling to bring a carton inside the office, Dowling had remarked that the cartons were about the size of footlockers. Id. at 30. At that time, Dowling's mind centered upon the information he had received that day or the day before with regard to new footlockers. Id. at 31. He had been informed that a couple of days prior a shipment of two footlockers

containing marihuana had originated in San Diego. _Id._ He was told to keep his eyes open for such footlockers. _Id._ The identifying elements of such shipments involved the use of new footlockers with a lock. _Id._ at 31-32.

The footlocker discovered inside the carton was a brand new one, with a combination lock. _Id._ at 8. After discovering the footlocker, the other carton was brought into the office. _Id._ at 6, 31.

At this time, Goss and Dowling engaged in efforts to open the footlockers. Both Goss and Dowling had tried to pull the footlockers open. _Id._ at 32. Goss took the serial number off the back of the combination locks, and tried to see if those figures corresponded with the proper combination that would be able to open the locks. _Id._ at 9. Goss tried other combinations, including one that he had on an old lock of his own. _Id._ at 9. In addition to these actual attempts to open the footlockers, Dowling gave consideration to turning the footlocker on its side, and hitting the hinge pins out with a nail. _Id._ at 33.

All of the efforts and intentions to open the footlockers occurred _prior_ to Goss' contacting any law enforcement agency. _Id._ at 9. Prior to the telephone call to the San Diego Police with regard to the footlockers, Dowling had formed an intention to open the footlockers "one way or other . . . ." _Id._ at 33-34. Goss also had definitely decided to open the footlockers before he called the law enforcement agents. _Id._ at 9.

Failing in their efforts to open the locks with various combinations, Goss then telephoned his supervisor, the supervisor of Customer Service in San Diego, and informed him that he felt that they had found a "case." _Id._ at

10. Goss apparently obtained authorization from his supervisor to open the footlockers, id. at 13, and permission to call the police department. Id. at 10. Goss then telephoned the San Diego Police Department. Id. at 10, 35. His purpose in calling the police was partially motivated by the desire to have the police present to identify any contraband that might be found. Id. at 10. Another reason was to request assistance from the police in opening the footlockers. Id. Neither Goss nor Dowling had ever seen marihuana before, and would not have been able to identify it if it was in fact discovered inside the footlockers. Id. at 19, 35.

When Goss telephoned the San Diego Police Department, he indicated that he was of the opinion that he had found contraband in a shipment. Id. at 12-13. He knew that the police department might have availability to the combinations which would operate to open the locks, and he requested the assistance of the police in this regard. Id. at 13. If such combination were not provided, Goss gave consideration to filing the locks off or breaking them off. Id. He indicated that the footlockers contained in the previously opened cartons were of the same type that had been found to contain marihuana in Los Angeles most recently. Id. at 44-45. Goss relayed the fact that defendant had parked his vehicle in an unusual manner, he advised the police of the license number of defendant's car, and he described the defendant and his car, id. at 44-45, and the name used by defendant. Id. at 49. (It should be noted that Goss and Dowling agree that Goss made the call, id. at 12, 34, although Mr. Ritchie, who received the call for the San Diego Police Department, was not sure which of these two United Airline employees had phoned. Id. at 46.)

Goss indicated that consideration was being given to knocking the hinge pins, but Ritchie advised against opening the footlockers by damaging them. Id. at 46, 52. Ritchie said that he knew a locksmith who could open the lockers without damaging them. Id. He was going to attempt to get combinations to the locks, and give them to United Airlines so that the footlockers could be opened that way. Id. Goss indicated to Ritchie his intention to open the lockers. Id. at 47, see also id. at 13. Goss told Ritchie that the footlockers were going to be retained at the airport, and not be shipped out. Id. at 16, 47. Ritchie did not give Goss any directives with regard to retention of the footlockers. Id. at 47.

The cartons would have been shipped out at 2:00 p.m. on a flight to New York on the day in question. Id. at 15, 27-28. Another flight was scheduled to depart for New York at 2:50 p.m., and another at 9:45 p.m. Id. at 15.

Goss then departed the air freight office prior to the arrival of the police. Id. at 16. He told Dowling to permit the police to open the footlockers if they were able to do so with the combinations they might provide. Id. at 17. Had the police been unable to assist in their opening, Dowling was going to open them by knocking the pins out of the hinges. Id. at 36.

Goss subsequently returned to the air freight office at about 3:30 p.m. Id. at 17. There is some question whether the police were present when Goss returned or whether he preceded their arrival. Compare id. at 18, 55, 58 with id. at 49-50.

During the time that Goss was absent from the air freight office, Ritchie was busy. He called Sergeant Schroers of the San Diego Police Department,

who is also a part-time locksmith. Id. at 48. Schroers told Ritchie that the combination could be discovered if the brand name of the locks and the serial numbers from the rear of the locks were supplied. Id. Ritchie then called Dowling and obtained that information, id., and in turn, relayed it to Schroers. Id. Schroers then supplied Ritchie with the combinations. Id. Ritchie's purpose in securing the combinations to the locks was to give them to United Airlines so that United Airlines could open the footlockers. Id. at 46.

Ritchie then contacted the California Highway Patrol and discovered that the registered owner of the vehicle, the license number of which was given to him by Goss, was a Rebecca J. Bellknap, 3333 Bayside Walk, San Diego, California. Id. at 48. Ritchie then contacted the supervising agent of the State Bureau of Narcotics, and another city narcotics officer. Id. at 49. The Federal Bureau of Narcotics was also contacted. Id.

Ritchie, Agent Charles T. McLaughlin of the State Bureau of Narcotics, and Detective Albert N. Myrann of the San Diego Police Department Narcotics Detail -- these parties met at Ritchie's office at 2:00 p.m., and proceeded to the air freight office of United Airlines. Id. at 49, 55, 58.

After arrival there, these three individuals looked at the footlockers and determined that they were brand new and of the same type that had been discussed on the prior day in the conversation between Ritchie and Goss. Id. at 50. At this time McLaughlin depressed the ends of one of the footlockers so that air, and its odor, would be emitted from it. Id. at 55, 59-60. The odor of marihuana was detected as a result of this depression. Id.

The combinations were supplied to Goss at that time, and he attempted

to use the combination to open one of the footlockers, but was unable to do so because he did not have his glasses on. Id. at 18, 37, 50-51, 56, 60-61. Myrann opened one of the footlockers, and Ritchie opened the other after Goss made his attempt. Id. at 18-19, 51,55-56, 60-61. The marihuana in issue in this appeal was inside the footlockers. Id. at 19, 61.

Goss and Dowling were acting pursuant to the regulations which permit the airlines to inspect baggage. Id. at 19, 38.

On Monday, May 15, 1967, a warrant was obtained for the arrest of defendant from the United States Commissioner. Commissioner's Docket No. 13, Case No. 4431. On Tuesday, May 16, 1967 defendant was arrested near the 3300 block of Midway Drive, San Diego, California at approximately 11:15 a.m. by McLaughlin and Agent Joe Baca of the Federal Bureau of Narcotics. R.T. p. 63. Defendant was advised that he was under arrest as per a federal warrant charging him with a federal violation, and was then advised of his constitutional rights. Id. He was advised that he had a right to remain silent, he was entitled to an attorney, that anything he said at that time could and would be used against him in a court of law, and that if he could not afford an attorney, an attorney would be appointed to represent him prior to any questioning. Id. at 64. After defendant was taken to his residence, id, at 65, he was taken to the office of the Federal Bureau of Narcotics, 325 West "F" Street, San Diego, California. Id. at 66. At approximately 12:15 p.m. defendant was escorted through the front door of 325 West "F" Street, easterly in the hallway, and up three flights of stairs to the Federal Bureau of Narcotics office. Id. at 66-67. Defendant was taken to this office for the purpose of

finger-printing and processing id. at 68, and for questioning. Id. Prior to any interview with defendant, defendant was again admonished of his constitutional rights by McLaughlin in the same manner that he had previously been advised. Id. at 69. At this time defendant made numerous admissions of guilt and incriminating statements. Id. at 71-72. Defendant was arraigned before the United States Commissioner, Edward Harris, no later than 3:00 p.m. that same day, id. at 67-68, 83, and sometime after 2:00 p.m., id. at 79. The total time spent in the office of the Federal Bureau of Narcotics was over one hour. Id. at 74, 80.

On the way to the office of the Federal Bureau of Narcotics, McLaughlin, Baca and defendant passed by the office of the United States Commissioner, which office is located at the base of the stairs from the first floor at the eastern end of the building at 325 West "F" Street. Id. at 84. McLaughlin does not recall passing by the United States Commissioner's office, nor seeing him in the building prior to taking defendant before him for arraignment. Id. at 67.

The United States Commissioner was in the building from the morning hours until the arraignment of defendant, specifically making himself available for that arraignment. Id. at 83. However, he does not specifically recall whether or not he was in his office when defendant was brought into the building and past his office. Id. at 86.

IV

ARGUMENT

A. THE DISTRICT COURT ERRED IN GRANTING THE MOTION TO SUPPRESS THE ONE HUNDRED POUNDS OF MARIHUANA AS EVIDENCE.

1. There was probable cause to conduct the search in question, and a search warrant was not required.

For the search in the present case to be valid, two factors must be found to exist: (1) probable cause for the search even if a warrant was unnecessary, Henry v. United States, 361 U.S. 98, 104 (1959), and (2) the absence of necessity for a warrant due to the "exceptional circumstances" in this case, naemly the contraband was threatened with imminent removal or destruction. United States v. Ventresca, 380 U. S. 102, 106-07 (1965); Cipres v. United States, 343 F.2d 95, 98 n.9 (9th Cir. 1965).

The lower court in this case made no specific findings on the issue of whether or not probable cause existed for the search, or whether or not a warrant was required under the circumstances. Order Granting Motion to Suppress One Hundred Pounds of Marihuana as Evidence, and To Suppress Statements Made by Defendant After Arrest [hereinafter referred to as Order]. The lower court did impliedly find that a warrant was necessary when it noted that the officers did not have a search warrant when the search in question was made. Id. at 2. This fact coupled with the finding that the search was a governmental search, as distinct from a search by private parties, suggests

that a warrant was required. Moreover, the lower court seemed to have found that there were no circumstances suggesting that the contraband in question would have been subject to removal, as it noted that instructions were "that the footlockers were not to be shipped, ..." Id.

Assuming that the search was made by governmental agents, was there probable cause for the making of the search? There can be no other answer to this question but an affirmative one. First, the starting point is the minds of the governmental agents when the search was made. What did they know when the search was made? In this regard, it must be conceded that a governmental search of defendant's footlockers occurred when McLaughlin depressed the lid of one of the lockers and detedted the odor of marihuana. R.T., pp. 55, 59-60; Order, p. 2; Hernandez v. United States, 353 F.2d 624, 626 (9th Cir. 1965).

Prior to the time that the lid of one of the footlockers was depressed, Ritchie had received a phone call from Goss relating to a couple of cartons that were presented for shipment at the air freight office of United Airlines. R.T., pp. 10, 35. Goss had observed the unusual manner in which defendant parked at the office, although he did not detect anything unusual about the demeanor of defendant. Id. at 4. However, Goss had been alerted to a pattern of marihuana shipments just the day before. Id. at 4, 5, 9-10, 11-12. This pattern involved the use of new footlockers with locks on them, of a weight of approximately one hundred thirty pounds. Id. In fact, Goss had been subjected to the embarrassment of authorizing shipments of marihuana in a similar manner just a few days before the incident in question, and had been so advised just one day before the incident when his supervisor called to

inquire as to who authorized such a shipment. Id. at 5. Moreover, Goss was aware that four such shipments had occurred within the last week in Los Angeles. Id. at 11-12. Thus the circumstances with regard to the shipment gave rise to Goss' suspicion, as the lower court so found. Order, p. 1.

It does not suffice to state baldly that the police knew only what Goss knew with regard to the footlockers. Ritchie knew one more very important item: He knew that Goss was highly suspicious of the cartons. Goss told Ritchie that attempts had been made to open the footlockers, and that Goss was now seeking the assistance of the police in opening them. R.T., pp. 12, 13, 47. Goss' concern over his discovery was further exemplified by the fact that Goss told Ritchie that he was not going to permit the footlockers to be shipped out, and that it was his intention to open them. Id. at 16, 47. Goss furthermore told Ritchie of the unusual manner in which defendant had parked, and that he had used the name of J. Johnson on the air bill. Id at 44-45, 49. Finally, and most importantly, Goss gave Ritchie the license number of defendant's vehicle, which he had taken great efforts to secure. Id. at 44-45.

Ritchie also had been contacted the previous day by Goss and the subject of marihuana being shipped in this manner had arisen. Id. at 12. Goss had been asked on that oaccasion to notify the police if he was in need of any assistance in such matters. Id. Now Goss was so notifying the police on the day in question. To this point this present case strongly resembles the factual situation in Hernandez v. United States, supra. There a recurring pattern had been discerned with regard to the shipment of marihuana at an

airport. in Hernandez, the police had requested airline employees to notify them if a person fitting the pattern appeared, which was done. In Hernandez, probable cause was found to exist, and justified the search. Hernandez v. United States, supra at 627-28.

It should be noted that, in Hernandez, there were several factors contributing to the pattern of marihuana shipments. These included Latin-American couriers, traveling first class on non-stop flights without advance reservations. Their luggage was generally new and expensive, with combination locks, and very heavy. Cash of large denominations was used to pay the fares and weight overcharges. Eight such cases had occurred within the last two years. Hernandez v. United States, supra at 626. Admittedly, the case before the bar has just a few less numerous factors as does Hernandez. However, it does have the very important distinction of there being four similar cases within the last week, as opposed to eight similar cases over a two-year period in Hernandez. This fact goes straight to the main point in Hernandez - - was there a pattern which justified the search? In Hernandez, the greater number of contributing factors was diluted by the less frequent occurrences. In spite of this dilution, the pattern was sufficiently established. Appellant fell within the pattern and the search was justified.

In the instant case, the most recent frequency of similar cases takes up any slack left by a fewer number of contributing factors, and establishes the "method of operation," in which defendant was discovered, to validate the search from a "probable cause" standpoint.

In our case, these factors retained their identical aspect with prior

shipments of marihuana: (1) the size of the cartons to be shipped, specifically their similarity to new footlockers in size, (2) the weight of the cartons, being about the same, namely one hundred thirty pounds, (3) the age of the footlockers (generally new), (4) the color of the footlockers, either blue or green, and (5) the presence of padlocks or combination locks on the footlockers. R.T. pp 4-5.

In addition to the fact that the pattern in the present case is as firmly established as the one in Hernandez, the instant factual situation is stronger. There, the governmental law enforcement agency knew only what the airline employee knew, namely the similar factual situation. In this case, Ritchie knew more - - he knew that a responsible citizen was highly suspicious and extremely concerned over the possibility of contraband in the shipment. R.T. pp. 12-13, 13, 44-45, 46. Ritchie knew that Goss had tried to open the footlockers, that he intended to open them, that he was not going to ship them out, and that he had taken the license number of defendant's car as well as relayed the name defendant had used. Id. With this additional information, the question is squarely put: If probable cause does not exist at this point, how should a responsible, diligent law enforcement agent act under such circumstances? Is he to disregard and fail to act upon the information showing that an individual fits into a known pattern of criminal conduct and information indicating that a citizen with a known position of responsibility is highly suspicious of the individual's actions? It insults practical reasoning to suggest that Ritchie was not justified in carrying on the investigation in the manner in which he did. The ultimate result was an extremely reasonable

search, the mere squeezing of the footlockers to see if the odor of marihuana was present. Id. at 55, 59-60. In light of the information received, such a search was reasonable and warranted. It is a far cry from a search that might involve damaging the individual's property, and thoroughly searching the item in question. In fact, Ritchie advised specifically against damaging defendant's private property. Id. at 46, 52. This attitude is consistent with the police's constant vigilence to protect private property. There was probable cause for the type of search eventually made.

However, it should be noted that the path from facts known to the justification for the search, as well as for the type of search made, is not a path to be traveled in a leap-frog manner. It is too easy to jump from a seemingly insignificant fact, which in itself does not give rise to probable cause or reasonableness, to the search and conclude that the fourth amendment has been violated. Instead, one must view the entire sequence of events, and take into consideration their cumulative effect after analysis to determine whether or not probable cause existed to justify the search. Such a path was approved in Hernandez, supra at 627, and should be followed here.

Ritchie had discovered that the license number of the vehicle revealed a registered owner's name and address quite different from that given by the shipper. R.T. p. 48. This additionally discovered inconsistency must not go unnoticed in determining the reasonableness of the state of mind with which the law enforcement agents acted.

Assuming that probable cause did exist for the search, a search warrant was not required if "exceptional circumstances," namely that the contraband

was threatened with imminent removal or destruction, were present. <u>United States</u> v. <u>Ventresca</u>, <u>supra</u>. Appellant contends that such circumstances were present in this case. Goss testified that he had formed an intention to open the footlockers, and thus not allow them to be shipped. <u>R.T.</u> p 15-16. He left instructions to this effect with Dowling. <u>Id.</u> at 17. Finally, he communicated his intention to the police upon his call to Ritchie on the day in question. <u>Id.</u> at 16, 47. Thus it might be argued that the failure to obtain a search warrant was unjustified in view of the complete absence of any showing that there was any possibility that the footlockers were going to be shipped out.

Such an argument again would not take into consideration the practical problems faced by the police at that moment. It is known that the foot-lockers could have been shipped out at 2:00 p.m., 2:50 p.m. or 9:45 p.m. <u>Id.</u> at 15, 27-28. Moreover, it is known that neither Goss nor Dowling had ever seen marihuana previously, and would not have been able to identify any discovered vegetable matter as contraband. <u>Id.</u> at 19, 35. Thus the question arises: In spite of Goss' announced intention to retain the foot-lockers, can the police afford to rely upon that representation? Could Ritchie assume that Goss would in fact keep the footlockers there at the airport?

It should be borne in mind that the only parties who were in a position to exercise any control over the footlockers were the airline employees, and not the police. The governmental agent gave no specific directives to Goss with regard to retention of the footlockers. <u>Id.</u> at 47. How would Ritchie

be certain that Goss might not open the footlockers, discover the marihuana, and ship it on, not realizing what was the nature of the discovered matter? Could Ritchie be sure that Goss might not decide that he was acting overly suspicious, and merely ship the cartons out without further investigation, abandoning his previously disclosed desire to open them? Was it known that the party who originally phoned might not go off duty, as in fact Goss did, returning by sheer coincidence to retrieve some forgotten flowers for his mother on her special day, id. at 17, and that the new person in charge might not have sufficient knowledge of the circumstances surrounding the footlockers to make the intelligent decision to retain them there at the airport? Could it have been known that someone might not accidentally ship the cartons on to their destination?

With the perplexities of such probabilities in mind, it is hardly surprising and completely understandable why Ritchie wasted no time in gathering together individuals who might assist in identifying contraband (if any was found), and journeying quickly to the airport. Id. at 49, 55, 58. A search warrant was not required under the circumstances. Moreover, it should be noted that the day in question was a Sunday, and Mother's Day also, id. at 2, 29, and there is no indication that a person able to issue a warrant was available.

2. The search was a private one, not a governmental one.

Much of the argument supra is mostly academic, and presented merely to dramatize the practical problems faced by law enforcement officers. If judicial hindsight is applied to declare their efforts to be

unconstitutional, law enforcement agents can accept such declarations if they are accompanied by suggested acceptable alternative courses of action. Probable cause is a factual, practical requirement, and should be measured to a large extent by the alternatives as faced by the agent in the field. If he did not act as he did, would he not have been considered to be negligent and not diligent in the performances of his duties? Objectively, would not the ordinary, reasonable member of public berate him for failing to act on the facts as he then knew them? If such a question is answered affirmatively, it goes a long way to establishing probable cause for the action taken. And, specifically, in the instant case, not to have acted under the circumstances that presented themselves would have been a dereliction of duty. Conversely, the facts disclosed probable cause and justification for the warrantless search.

However, the main point of reliance to sustain the search in question lies in the fact that the search was not a governmental one, bounded by the rules of probable cause and necessity for warrants, but was a private search by the airline, pursuant to its lawful authority. Put in another manner, the search was one more closely aligned to the decision in Gold v. United States, 378 F.2d 588 (9th Cir. 1967), and should be controlled by Gold, as distinct from Corngold v. United States, 367 F.2d 1 (9th Cir. 1966). It was this question to which the lower court directed its attention, and upon which it rendered its decision.

Appellant starts with the assertion that Gold clearly establishes the fact that governmental participation in a search by a private party does not

invalidate the search. In Gold, special agents of the Federal Bureau of Investigation advised the manager of United Airlines customer service that the agents had reason to believe that the description of the contents of the packages on the air waybill was inaccurate. This information was provided after surveillance of defendant Gold's trip to the air freight office at McCarran Field, Las Vegas, Nevada. Gold v. United States, supra at 590. The court admitted that there was a direct causal relationship between the participation of the federal agents and the opening of the packages by the airline:

> "While it might be expected that the carrier would not ignore the packages after being advised of the mislabeling by government agents who obviously had more than a citizen's interest in the shipment, the carrier had sufficient reasons of its own for pursuing the investigation." Id. at 591.

Physical governmental participation is not fatal. That it can be is amply illustrated by the decision in Corngold v. United States, supra. Thus, the question becomes one, as in many other areas of law, of degree. There is a vast spectrum of governmental participation, ranging from the slightest degree of participation to the most serious. The line on this spectrum, distinguishing tainted governmental participation from valid participation, presently lies somewhere between Gold and Corngold. It is respectively submitted that the case at bar is clearly on the safe side of Gold, and in no way approaches the objectionability of a Corngold case.

Before proceeding to an analysis of Gold and Corngold with this case, the problem language that the lower court found impassable should be

disposed of. The lower court cited language from Corngold to the effect that the search in Corngold would be objectionable even if the TWA employees had initiated and participated in the search. However, the opinion in Corngold continues in the very next sentence of the same paragraph in these words, "The customs agents joined actively in the search." Corngold v. United States, supra at 5. This qualifying phrase goes to the heart of the matter, namely the degree of governmental participation. In the facts of that case, it was the degree of governmental activity which was fatal, regardless of how the search was started. Although such language seemed to foreclose the matter in the view of the lower court, it is submitted that the language cannot be taken out of context of the factual situation. Whatever apparent forcefulness such language might have by itself is severely limited by, and unalterably linked to, the facts of the case.

Thus, instead of centering on what appellant believes to be a limiting choice of expression in Corngold, the appropriate emphasis should rest on the degree of governmental participation. In this regard, the factual situation presented by our case is closer to Gold than Corngold. First, in both Gold and Corngold, the search was casually initiated by some governmental activity. In Corngold the customs agents maintained surveillance on defendant and followed him to the airport. They then immediately tested the packages in question after defendant had arranged for shipping them. The opening of the packages was done specifically at the government's request. Corngold v. United States, supra at 2, 4, 5. In Gold it was only after the manager at the office received the information from government agents that any idea or

intention to open the packages came to his mind. Gold v. United States, supra at 591.

Quite to the contrary, in the instant case, non-governmental agents started the search. Goss and Dowling cut the rope off of the cartons, broke the gummed seal on the flaps, held the flaps down, and removed the footlockers. All this activity, which most certainly is a search in any legal sense of the term, took place prior to any contact with any governmental agency with regard to these packages. R.T. p. 9. Moreover, Goss and Dowling tried to open the footlockers by pulling on them. Id. at 32. Then Goss tried to solve the combination locks by utilizing the serial numbers on the backs of the locks, as well as an old combination he recalled from one of his own locks. Id. at 9. He formed an intention to open the footlockers before his call to the police. Id. In addition , Dowling also formed such an intention. Id. at 33-34. Consideration was given by both to alternate methods of opening of the packages, including filing the locks off, id. at 13, breaking the footlockers, and knocking the hinge pins out of the back of the locks. Id. at 33. All of this activity to open the footlockers came before any contact with the police. Then Goss called his supervisor to insure that his course of action was approved, and he obtained such approval. It was only then, pursuant to the direction given to Goss by his supervisor the day before, id. at 9-10, that a telephonic communication was made to the police to seek their assistance. Id. at 10, 35

Thus, it can hardly be argued that governmental action caused the initial efforts to open the footlockers. This fact makes the present case much

stronger than even Gold, and certainly distinguishable in this respect from Corngold. Moreover, it was this same factor which assisted the court in Gold to distinguish Corngold. In Gold, the court noted that the government agents left the premises and were not present when the manager and one other employee opened one of the packages. Gold v. United States, supra at 591. The same is true in the present case, as no governmental agents were present when the two employees opened the packages. (Interestingly enough, the employees in Gold and in this case were employees of United Airlines, whereas Corngold involved Trans World Airlines.) Finally, it was this factor that led the lower court to determine that this "factual distinction would seem to be sufficient to hold Corngoid does not control, ..." Order, at 3. However, as noted supra, the lower court felt that it could not avoid the apparent significance of the language it cited from Corngold. Id. at 3-4.

Before discussing further the factual distinctions amongst these cases, it is well to note here that appellant is of the position that only one search occurred, which search resulted ultimately in the discovery of marihuana in the footlockers that defendant wanted to ship by air freight. It might be argued that the different activity by various persons should be considered separately for purposes of analysis. Such an attitude could result in the determination that several searches of the footlockers in question took place, instead of one continuous one. Appellant believes that such a position tends to distort the significance of the actions taken by the individual, either magnifying its significance or minimizing it. Ultimately, it is the degree and nature of the governmental participation which makes the crucial difference, and not the

number of searches.

It is beyond dispute that the initial investigation of the cartons sent by defendant, and their contents occurred as a result of the actions taken by private, non-governmental employees. It is not without significance that the action which they took prior to any governmental participation could very well have resulted in the discovery of the marihuana. They opened the cartons up. Had the defendant Wilson merely placed the marihuana inside the cartons, wrapped in plastic, without placing them inside footlockers with combination locks on them, the discovery would clearly have been purely a private one. It does not seem logical nor practical to make cases turn on the ingenuity that a defendant might use to seal his packages.

The presence of the footlockers and combination locks merely had the effect of carrying the private search further. It was at this point that governmental participation occurred. Appellant does not contend that law enforcement agents had nothing to do with the ultimate discovery of the marihuana, but contends that the role played by governmental agents was accessorial and not principal. Goss and Dowling had tried to solve the combination locks, and were unsuccessful. R.T. p. 9. They decided to call upon the police for two reasons: (1) to have assistance present to identify any contraband, if such were found, and (2) to have assistance in opening the locks through determination of the combinations by the police. The purpose of contacting the police was not to place the objective of opening the footlockers in their hands, but the purpose was to gain their assistance to aid the United Airline employees in their efforts to open the locks. See Id. at 9-10, 13. The

lower court made a finding explicitly supporting this crucial fact when it wrote that "from the evidence there is no question that the United Airline employees would have opened the lockers without any assistance from the police officers." Order, p. 3.

The fact that there is no question but that the employees were going to open the footlockers leads to another vital point: If this fact is true, and it has been communicated to the police, there was no necessity in the minds of the police that a warrant was necessary. The law enforcement officers knew that United Airlines was going to open the packages, and had in fact advised against damaging them to open them. R.T. pp. 46, 52. If the matter of opening the footlockers by United Airlines was a foregone conclusion in the minds of the officers, why should they give any consideration to obtaining a search warrant to do something which was going to be performed anyway?

Other points of distinction of the present case from Corngold, and similarity with Gold, include the following:

(1) In Corngold, as interpreted by Gold v. United States, supra at 591, the "airline employee had participated in the search solely to serve the purposes of the government and . . . the carrier had taken no action on its own behalf . . . ." In our case, the contrary is true. The carrier had taken action on its own behalf. The employees undertook the first stages of the search on their own, and never participated in it to serve the purposes of the government, but later merely requested governmental assistance.

(2) In Gold, "the agents did not request that the package be opened,

and they were not present when it was opened." Id. The same is true in the case before the bar. No request was made by the police to Goss or Dowling to open the footlockers, and no law enforcement agent was present when they removed from transit. It is true that agents were present when the footlockers were actually opened. However, it must be noted that it was Goss who first attempted to utilize the combinations supplied by the police to open the lockers. R.T. pp. 18, 37, 50-51, 56, 60-61. Unfortunately, due to his poor eyesight, and his inability to find his glasses, the actual opening of the locks, and then the footlockers was performed by law enforcement agents. Id. The critical point still remains imminently clear: The police were still assisting Goss, and only did the actual opening when Goss was unable to do so. This vital evidence continues to show the subservient role that the police were taking to private enterprise in the opening of the footlockers. In fact, as brought out in cross-examination, the depressing of the lid of one of the footlockers was demonstrated by McLaughlin to Goss as the means of determining whether or not marihuana might be contained therein. Id. at 23-24.

(3) In Gold, the court noted that the agents had the same right as any citizen to point out what they suspected to be a mislabeled shipping document, ..." Gold v. United States, supra at 591. In the instant case, the same could be said of the agents' right to supply the combinations to the locks.

(4) In Gold, it was noted that the agents "exercised no control over what followed." Id. In this case, the only control was exercised as a result of Goss' physical inability to carry out his intention. It was only after that inability became apparent did the agents participate.

(5) In Hernandez, one fact present was that airport employees had been asked to notify the police if a person fitting the aforedescribed pattern appeared. Hernandez v. United States, supra at 626. In the case at bar the only request made by the police to Goss was that they be advised if he found anything. R.T. p. 12. In Hernandez, this factor did not operate to invalidate the search there.

(6) In Corngold, the initial opening of the packages was done specifically at the request of the government. Corngold v. United States, supra at 4. It is quite contrary in the present case.

(7) Finally, in Corngold after the initial opening, all activity was conducted by government agents. Corngold v. United States, supra at 4. In the present case, it was still Goss who first attempted to open the combination locks after the combinations had been supplied. R.T. pp 18, 39, 50-51, 56, 60-61. It can hardly be said that the search was then dominated and controlled solely by the governmental agents.

Appellant finds impressive similarity between the facts in the instant case and those disclosed by Collozo v. United States, 370 F.2d 316 (9th Cir. 1966), decided after Corngold. In Collozo, there is an indication that the United Airline's employee called first his supervisor, and then the Los Angeles Police Department. The circumstances causing this employee to take the same course of action that Goss did in the present case are not disclosed, but it suffices to say that something aroused his suspicion. The Los Angeles police officer detected an odor of marihuana (as did McLaughlin in the instant case), and called narcotics officers. Defendant Rodriquez was then arrested, and the

bag was found to contain a large quantity of marihuana. Id. at 317. The court ruled that the assignment of error as to the admissibility of the marihuana was without merit for the failure to raise the issue below. Id. However, it added that "we have, . . . under quite comparable circumstances, upheld a similar search. See Hernandez v. United States, 9 Cir., 1965, 353 F.2d 624; compare Corngold v. United States, 9 Cir., 1966, 367 F.2d 1." Id.

Because Corngold is a fourth amendment problem, it is submitted that Collozo is on point with the factual situation in the instant case, as disclosed to the fullest extent by the factual situation in that case. The matter of probable cause and the necessity of a warrant went without discussion where the search was so clearly a private one, with the role of the governmental law enforcement agents being one merely of assisting, not participating principally.

Finally, it should be noted that the lower court granted the motion to suppress and ordered the same "with extreme reluctance." Order, p. 4.

B. THE DISTRICT COURT ERRED IN GRANTING THE MOTION TO SUPPRESS STATEMENTS MADE BY DEFENDANT BECAUSE OF AN ALLEGED "UNNECESSARY DELAY," UNDER RULE 5, FEDERAL RULES OF CRIMINAL PROCEDURE, IN TAKING DEFENDANT BEFORE THE UNITED STATES COMMISSIONER BECAUSE THE REQUIREMENTS OF MIRANDA V. ARIZONA HAVE ALTERED THE MEANING OF "UNNECESSARY DELAY" IN SUCH A MANNER THAT RULE 5 WAS NOT VIOLATED IN THIS FACTUAL SITUATION.

The lower court cited the case of Morales v. United States, 344 F.2d 846 (9th Cir. 1965) as authority for the suppression of the highly incriminating statements by defendant. Appellant concedes that the facts of Morales appear to parallel exactly the facts of the present case. Thus, on the surface it would appear that appellant must accept the suppression of the statements by defendant in which he admitted his guilt.

However, appellant also accepts the lucid and perceptive analysis by the court in Morales with respect to the motivating rationale behind the exclusion of statements made during a period of "unnecessary delay." Upon adoption of the reasoning of the court in Morales on this issue, it becomes quite clear that the later decision by the United States Supreme Court in Miranda v. Arizona, 386 U.S. 436 (1966), has undermined the rationale of the rule announced by Morales, and requires reconsideration of that rule in light of the Miranda decision.

Morales contains no evidence whatsoever that defendant there was given any advice with regard to his constitutional rights prior to the time that he rendered the incriminating statements. In the case at bar, defendant was twice warned of his constitutional rights in a most complete manner. R.T. pp. 64, 69. In fact, the adequacy of the warning so impressed the lower court that the lower court complimented McLaughlin on his admonishment to defendant. Id. at 77.

Morales points out that Mallory v. United States, 354 U.S. 449 (1957), at 454-55 explains that the arraignment before a judicial officer is required so that a defendant may be advised of his rights. Thus, the McNabb-Mallory

rule aims to exclude statements made by a defendant who is unaware of his constitutional rights and who is being interrogated in a custodial situation. In neither McNabb v. United States, 318 U.S. 332 (1943), nor Mallory was the defendant advised of his rights prior to the making of the incriminating statements. It is the pressure on the unknowing defendant which makes his statements unreliable, and thus inadmissible. See Miranda v. United States, supra at 445-55.

However, a quite different situation arises when a criminal defendant is fully and most adequately advised of his constitutional rights, and then proceeds to admit his guilt, as did defendant in this case, even if such a confession occurs during a period of "unnecessary delay." There is no causal relationship between the period of delay and the confession, as there had always been in pre-Miranda cases.

Thus, appellant concludes that Miranda has altered the significance of the Morales decision. Having been advised of his rights, and the delay not having a direct causal connection with the rendering of the confession (other than providing the time period in which it was given), the statements should be admissible. Moreover, the time gap between the time of arrival at the federal building in San Diego and the time of arraignment was not great, being merely a matter of approximately two hours. Order, p. 5. Furthermore, some time was spent in processing defendant, R.T., p.74, a matter approved of in Morales.

Finally, approximately one hour was consumed by reason of defendant's concern about his bail. Id. at 80.

V.

CONCLUSION

The government respectfully submits that the order granting the motion to suppress the physical evidence, namely the one hundred thirty pounds of marihuana, be reversed, and that the order granting the motion to suppress the statements of guilt made by defendant be reversed.

Respectfully submitted,

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CERTIFICATE

I certify that in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Joseph A. Milchen

JOSEPH A. MILCHEN

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 22225

JOHN J. McMULLEN ASSOCIATES, INC., *Appellant,*

v.

STATE BOARD OF HIGHER EDUCATION, ET AL., *Appellees.*

Appeal from the United States District Court for the District of Oregon

HONORABLE WILLIAM T. BEEKS, District Judge

BRIEF FOR APPELLANT

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BRIEF FOR APPELLANT

PLEADINGS AND JURISDICTION

This is an appeal by plaintiff-appellant, John J. McMullen ssociates, Inc. (hereinafter referred to as Plaintiff) from final judgment of the U. S. District Court for the District ' Oregon in favor of defendants-appellees, State Board of igher Education (of Oregon), et al (hereinafter Defend- ıts), dismissing the action.

This suit was commenced May 27, 1965, and subsequently ı Amended Complaint was filed charging defendants with ıfringement of four U.S. patents, unfair competition and ıfringement of two U. S. trademark registrations, and

violation of constitutional rights. District Court jurisdiction was predicated on 28 U.S.C. § 1338(a).

By responsive motion and answer, defendants raised the defense of 28 U.S.C. § 1498, contending that because of dealings between one of the defendants (State Board of Higher Education) and the United States Government, plaintiff's sole remedy is against the United States in the Court of Claims, and plaintiff is therefore precluded from bringing this suit in the district court. The lower court segregated the defense under § 1498 for trial before the other issues. The agreed facts and issues pertaining to the segregated defense are set forth in a detailed Pretrial Order (CT 94).

The segregated issue was tried before the lower court on January 4, 1967. The Court sustained the defense under § 1498 by opinion dated May 17, 1967 (CT 181), and this opinion was adopted as the Court's findings and conclusions (CT 191). Based thereon, a judgment dismissing the action was entered May 29, 1967 (CT 192).

Notice of appeal was filed June 26, 1967 (CT 193). Jurisdiction of this Court upon the appeal is based upon 28 U.S.C. § 1291.

STATEMENT OF THE CASE

The facts are simple and not in dispute. The issue is primarily one of law—the correct interpretation of § 1498 as applied to the undisputed facts.

In early 1963, Oregon State University, controlled by defendant State Board of Higher Education, acquired a surplus vessel, "F/S 210" (subsequently named the YAQUINA) (PT Order, Agreed Fact 17, CT 101). Specifications for conversion of the vessel for oceanographic research purposes were completed by a private naval architectural firm in November 1963; the specifications called for "passive anti-rolling tanks" but did not specify the type (PT Order, Agreed Fact 22, CT 102). On December

24, 1963, in response to a direct inquiry from plaintiff concerning applicability of § 1498, the Navy Department in the person of Admiral J. A. Brown advised that installation of a stabilization system as covered by plaintiff's patents did not fall "under the Government exemption" (PT Order, Agreed Fact 23, CT 102). The Government did not specify or require that an anti-roll stabilization system be installed in the subject vessel (PT Order, Agreed Fact 37, CT 103).

After competitive bidding, Oregon State University entered into an agreement, dated May 4, 1964, (Ex. 1184) with defendant Albina Engine & Machine Works, Inc., pursuant to which Albina was to convert the vessel pursuant to the architectural specifications (PT Order, Agreed Fact 28, CT 102). During the summer of 1964, defendant Albina converted the F/S 210 into the research vessel YAQUINA for Oregon State University pursuant to the contract (PT Agreed Fact 32, CT 103). During the conversion, defendant Albina manufactured and installed a ship stabilizing system which, for the purpose of the segregated issue tried by the lower court, must be presumed to infringe valid patents of the plaintiff (Op., CT 182). The YAQUINA was put into operation by Oregon State University on October 10, 1964, which operation has continued until the present (PT Order Agreed Facts 33 and 34, CT 103).

To finance the conversion, Oregon State University obtained funds by grant from the National Science Foundation. The money was given pursuant to two grant letters, the first for $600,000.00 (Ex. 1143), dated June 7, 1963, and the second for $170,000.00 (Ex. 1144), dated April 10, 1964. Similarly, the operation (use) of the YAQUINA has been financed to the extent of 50 per cent by grants from the National Science Foundation. (RT 135). Of the balance, the Navy Department pays 40 per cent and the Atomic Energy Commission pays 10 per cent pursuant to contracts with these agencies for specific research task orders. (RT 135-36).

Defendants urged to the lower court that the manufacture by defendant Albina and the use by Oregon State University of the stabilization equipment installed in the YAQUINA was for the United States Government within the meaning of 28 U.S.C. § 1498, and that therefore plaintiff could not maintain this suit for patent infringement in the district court.[1]

The lower court accepted defendants' position and dismissed not only the causes of action predicated on infringement of plaintiff's four patents, but also those causes of action predicated on unfair competition and infringement of trademark registrations and violation of constitutional rights. The lower court entered a final judgment dismissing the entire action.

SPECIFICATION OF ERRORS

1. The District Court erred in dismissing the Amended Complaint, specifically, the Fifth and Sixth Causes of Action relating to unfair competition and infringement of trademark registrations and for violation of constitutional rights.

2. The District Court incorrectly concluded that the manufacture of the YAQUINA stabilizing equipment by defendant Albina and the use of the YAQUINA stabilizing equipment by Oregon State University, controlled by defendant State Board of Higher Education, were *for* the United States Government within the meaning of 28 U.S.C. § 1498.

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[1] The relevant portions of 28 U.S.C. § 1498 provide:

(a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SUMMARY OF ARGUMENT

The only matter heard by the lower court was the alleged defense under 28 U.S.C. § 1498.

Regardless of whether or not § 1498 precludes plaintiff's suit in the District Court for causes of action predicated on patent infringement, clearly this statute does not apply to those causes of action alleging unfair competition and trademark infringement, and violation of constitutional rights. Accordingly, this case cannot be dismissed at least as to the Fifth and Sixth Causes of Action asserted in the Amended Complaint.

With respect to the causes of action based on patent infringement, the manufacture and use by defendants of the stabilizing equipment in the YAQUINA was not "by or for the United States" within the meaning of 28 U.S.C. § 1498(a). Under the patent laws, the basic right of patent owners is the exclusive right to their inventions, 35 U.S.C. § 154. Since § 1498 is a statute limiting the jurisdiction of the district courts in enforcing the patent owners' basic rights, the statute should be construed narrowly rather than broadly.

The legislative history of § 1498 and its predecessor statutes shows clearly that the intent of Congress—and the purpose of the statute—was to prevent interference by patent owners with the procurement of materials and services by the United States Government. Therefore, the statute should be interpreted to apply only to procurement of goods and services for the Government and should not extend to activities which are being given only the financial support of the Government.

Use or manufacture of an invention financed with Government funds obtained under a National Science Foundation grant is not "for the Government" within the meaning of § 1498 because, as is clear from National Science Foundation's statements and its statutory history, such funds are

granted for support purposes only, intended to be without Governmental control or restriction, and are unrelated to procurement. Mere financial support by the Government was never intended as the test to deprive patent owners of their exclusive rights to their inventions by permitting infringers to hide behind § 1498 when there is no Government procurement.

For § 1498 to apply, the use or manufacture must be *"for* the Government." Even though in these circumstances the Government has authorized or consented to the use or manufacture, such authorization or consent does not *a fortiori* make the use or manufacture of the invention *"for* the Government" when the procurement of goods or services is not *for* the United States Government but for Oregon State University. The grant funds advanced to Oregon State University are a gift or subsidization and lose their identity when received by Oregon State University and comingled with its general funds. Section 1498 does not exempt infringing activity by a grantee.

ARGUMENT

I

THE FIFTH AND SIXTH CAUSES OF ACTION CANNOT BE DISMISSED ON BASIS OF § 1498

The first four causes of action of the Amended Complaint relate to infringement by defendants of four patents, Nos. 3,054,373; 3,083,672; 3,094,094 and 3,109,403. The Fifth Cause of Action alleges violation by defendants of plaintiff's constitutional rights, particularly rights secured under the Fifth and Fourteenth Amendments to the Constitution of the United States of America "by depriving plaintiff of its property without just compensation and without due process of law". The Sixth Cause of Action alleges unfair competition and infringement by defendants of U. S. Trademark Registrations Nos. 739,852 and 775,970, owned by plaintiff.

The Fifth and Sixth Causes of Action asserted in the Amended Complaint are separate and distinct from the first

four causes of action relating to patent infringement. Accordingly, they cannot be dismissed merely on the basis that the defendants may or may not have a valid defense to the patent infringement causes of action.

The segregated issue tried by the lower court was restricted solely to the applicability of § 1498. That statute is silent regarding violation of constitutional rights and/or trademark infringements. Therefore, no construction of § 1498 affords a basis for a dismissal of this Action including the Fifth and Sixth Causes of Action of the Amended Complaint.

The lower court, in its Opinion, Findings of Fact, and Conclusions of Law, made absolutely no reference to or specific disposition of plaintiff's Fifth and Sixth Causes of Action. In view of this record, the Judgment entered by the lower court must be reversed, at least for further proceedings in connection with these two causes of action.

II

THE MANUFACTURE AND USE OF THE EQUIPMENT WAS NOT "FOR THE GOVERNMENT" WITHIN THE PROPER INTERPRETATION OF § 1498

A. The Issue Involves Statutory Interpretation

At the outset, it is well to point out that no dispute exists as to the facts. The basic facts are all set forth in the Agreed Facts of the Pretrial Order (CT 94) and the exhibits, supplemented by undisputed testimony at the trial hearing. The only question is the applicability of § 1498 to the undisputed facts of the case. Thus, FRCP Rule 52(a)[2] and *McCallister* v. *U.S.*, 348 U.S. 19 (1954) clearly have no application to this appeal.

This is a case of first impression, insofar as it concerns the question whether mere financial support (grant funds)

[2] "Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." FRCP Rule 52(a).

from the National Science Foundation, with no Government procurement of goods and services involved, calls for the application of § 1498.[3]

B. Legislative History of the Patent Laws and § 1498.

The United States Patent Laws, enacted by Congress pursuant to Article I of the Constitution[4] stem from the public policy to promote invention and private enterprise. This policy requires the full protection of patent rights against infringement.[5]

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[3] There are, however, some Comptroller General opinions bearing on the point, which are discussed *infra*, p. 26.

[4] Article I, § 8: "The Congress shall have Power . . . to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . ."

[5] *Report of the President's Commission on the Patent System, Washington, D. C.*, 1966, pp. 2-3:

> "Agreeing that the patent system has in the past performed well its Constitutional mandate 'to promote the progress of . . . useful arts,' the Commission asked itself: What is the basic worth of a patent system in the context of present day conditions? The members of the Commission unanimously agreed that a patent system today is capable of continuing to provide an incentive to research, development, and innovation. They have discovered no practical substitute for the unique service it renders.
>
> "First, a patent system provides an incentive to invent by offering the possibility of reward to the inventor and to those who support him. This prospect encourages the expenditure of time and private risk capital in research and development efforts.
>
> "Second, and complementary to the first, a patent system stimulates the investment of additional capital needed for the further development and marketing of the invention. In return, the patent owner is given the right, for a limited period, to exclude others from making, using, or selling the invented product or process.
>
> "Third, by affording protection, a patent system encourages early public disclosure of technological information, some of which might otherwise be kept secret. Early disclosure reduces the likelihood of duplication of effort by others and provides a basis for further advances in the technology involved.
>
> "Fourth, a patent system promotes the beneficial exchange of products, services, and technological information across national boundaries by providing protection for industrial property of foreign nationals."

The heart of what is granted the patent owner is "the right to exclude others from making, using or selling the invention throughout the United States". 35 U.S.C. § 154. This exclusive right is in strict conformance with the constitutional mandate appearing in Article I, Section 8, that the progress of science be promoted by securing to inventors the *exclusive right* to their discoveries for limited times. In furtherance of this statutory right and constitutional mandate, the Federal courts are empowered to grant injunctions to prevent violation of the rights secured by patent. 35 U.S.C. § 283.

The single exception to the exclusivity has been the Federal Government. Prior to the initial predecessor of 28 U.S.C.§ 1498, the Supreme Court had enunciated that whenever the United States Government made use of a patented invention without license, it became a tortious infringer liable to the patent owner in the same manner as a private party. *United States* v. *Burns,* 79 U.S. 246 (1870); *James* v. *Campbell,* 104 U.S. 356 (1881); *United States* v. *Palmer,* 128 U.S. 262 (1888). However, the Government refused to be sued for patent infringement without its consent under its immunity as a sovereign. *Schillinger* v. *United States,* 155 U.S. 163 (1894); *Pitcher* v. *United States,* 1 Ct. Cl. 7 (1853). The Court recognized that, in effect, the patent owner was left with a right without a remedy and placed responsibility on Congress to correct the situation. See *Carr* v. *United States,* 98 U.S. 433, 437 (1878) cited with approval in *James* v. *Campbell, supra.*

The Congress finally enacted the Act of 1910.[6] The House Committee on Patents in this Report stated that the failure

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[6] Act of June 25, 1910, c. 423, 35 Stat. 851, provides in pertinent part:

"That whenever an invention described in and covered by a patent of the United States shall hereafter be used by the United States without license of the owner thereof or lawful right to use the same, such owner may recover reasonable compensation for such use by suit in the Court of Claims . . ."

of the Government to provide any remedy to wronged patent owners constituted a taking of property without due process of law in violation of the Fifth Amendment to the Constitution.[7] *Accordingly, the Act of 1910 was intended to provide aggrieved patent owners with a remedy against the United States.*

At the height of World War I, the Supreme Court handed down its decision in *Cramp & Sons Ship & E. Bldg. Co. v. International Curtis Marine Turbine Co.*, 246 U.S. 28 (1918). Curtis had sued Cramp to recover damages and profits accruing from infringement of certain of its patents, which infringement had occurred in the performance of a Government contract. The Court held that the provisions of the Act of 1910 did not extend to a Government contractor.

This decision prompted the Acting Secretary of the Navy, Franklin D. Roosevelt, to dispatch a letter to the Chairman of the Committee on Naval Affairs of the Senate requesting amendment of the Act of 1910 to make its provisions applicable to Government production by private contractors.[8]

In view of the wartime need, an amendment was tacked onto a Naval appropriation bill and vigorously supported in Congress.[9]

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7 "The United States can not be sued except where it has consented thereto by statute, and unless this or some similar bill shall be passed the owners of patents will continue to be the only persons who are outside the protection of the fifth amendment to the Constitution . . ." H. Rept. No. 1288, 61st Cong., 2d Sess. (1910).

8 The letter is reproduced in the case of *Wood v. Atlantic Gulf & P. Co.*, 296 Fed. 718, 720, 721 (S.D. Ala. 1924).

9 Statement in the House by Mr. Padgett, 56 Cong. Rec. 7960-61 (1918):

"This is an amendment of the patent law, and, generally speaking, it would not be appropriate on the naval appropriation bill. It makes only a slight change in the existing law, but the urgency and necessity of it was such that the Senate deemed it proper to place it on the bill. It is strongly recommended in a letter from the Assistant Secretary of the Navy, Mr. Roosevelt.

". . . Now, the only change that is made [in the existing law] is to provide that the private contractor, who is doing the Government work un-

Congress enacted the amendment which has come to be known as the Act of 1918.[10] The Act of 1918 enacted into law the language which now appears in paragraph one of the present § 1498:

> "That whenever an invention described in and covered by a patent of the United States shall hereafter be used *or manufctured* by *or for* the United States without license of the owner thereof or lawful right to use *or manufacture* the same, such owner's remedy shall be by suit *against the United States* in the Court of Claims *for the recovery of his reasonable and entire compensation for such use and manufacture:* Provided, however, That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use *or manufacture* by *or for* the United States of any article heretofore owned, leased, used by, or in the possession of the United States . . . ." [Changes from Act of 1910 in italics]

The statutory history and the Act of 1918 were reviewed by the Supreme Court in the case of *Richmond Screw Anchor Co.* v. *United States,* 275 U.S. 331 (1928). The Court concluded that by specifying recovery in the Court of Claims for the patent owner's entire compensation for infringement in production for the Government, the Act effected an assumption of liability by the Government. As such, litigation against the actual infringer was precluded in connection with his production for the Government.

The effect of the Fourth Circuit decision in *Newport News Shipbuilding & Drydock Co.* v. *Isherwood,* 5 F. 2d 924

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der contract with the Government shall be placed on the same basis and shall bring suit against the Government of the United States to recover certain compensation from the use of their patent, or such damage for the use of the patent, as they could recover if the Government of the United States was doing the work itself. Thereby it would prevent the injunctive process from the courts being used to prevent private manufacturers doing Government work. That is the whole change made in the law and the conditions are such as to require that it should be done."

10 Act of July 1, 1918, c. 114, 40 Stat. 705.

(4th Cir. 1925), cert. denied 269 U.S. 592 (1925), wrought the next significant change in the statute. The parties had previously entered into a licensing agreement, the terms of which were in dispute. The shipbuilding company was under contract to the Navy to build for the Government eight oil tankers utilizing the Isherwood patents. The shipbuilding company contended that it was, by virtue of the Act of 1910, as amended, not required to pay royalties on these eight ships. In rejecting this argument, the Court held that there was no use of a patent without a license (the situation to which the amended Act of 1910 was directed), but, on the contrary, the vessels were built under a lawful licensing agreement authorizing the use of the patents (at 934).

While the decision in this case placed no undue hardship on the cost of Government procurement during peacetime conditions because the Government had to bear the ultimate cost of the royalties so paid by reimbursement of the contractor's costs, the advent of World War II caused reasonable royalty costs based on limited peacetime production immediately to become excessive when multiplied hundreds and thousands of times by a greatly expanded production for the war. As a consequence, in 1942, Congress enacted the Royalty Adjustment Act.

The portion of The Royalty Adjustment Act applicable to the statutory history of § 1498 was Sec. 6 (second half) which introduced the language now appearing as the second paragraph of the present statute:

> "For the purpose of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States; and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U.S.C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or

> any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States." The Royalty Adjustment Act, 1942, Act of October 31, 1942, Sec. 6, c. 634, 56 Stat. 1013.

Accordingly, the second half of Sec. 6 and the Act of 1910, as amended, were construed together.

The purpose of the Royalty Adjustment Act was to reduce the liability of the Federal Government in connection with the utilization of patented inventions.[11] The incorporation into Sec. 6 of the "authorization or consent" of the Government acted to limit the Government's liability to only those cases where the manufacture or use was for the Government *and* where the Government had actually given its authorization or consent to such appropriation of the patented inventions.

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[11] The Royalty Adjustment Act resulted from S. 2794. In its Report (S. Rept. 1640), the Senate Committee on Patents stated:

> "By virtue of [the Act of 1910] the owner of a patent may sue the United States to recover reasonable compensation whenever his invention is used without his consent in connection with war procurement. Because of this law, it has been the policy of the procuring agencies of the Government to use unhesitatingly any patent deemed essential in the procurement program . . .
>
> "In recent months it has become apparent that procurement costs of material in certain instances include exorbitant royalties under already existing patent licenses. The principal motive of the bill is to remedy such situations."

In the Report of the House Committee on Patents (H. Rept. 2602), the purposes of the Act are enumerated:

> "1. To eliminate the payment of excessive royalties by the Government to the owners of inventions on articles manufactured under licenses to Government contractors or subcontractors;
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> * * * * * * * * *
>
> "3. To place the owners of inventions utilized by the Government in the war effort on an equal footing and to permit the Government to exercise its rights to utilize such inventions through the medium of any desired source of supply, without having to pay more than a fair and just compensation to the owners of such inventions;".

After World War II, the Act of 1910, then a part of Title 35 of the United States Code (40 Stat. 705 (1918), 35 U.S.C. § 68 (1952)) was reworded and transferred to Title 28[12] and, subsequently, amended again to follow more closely the language employed in the 1918 amendment.[13] However, none of these changes was material, and in 1951, Sec. 6 of the Royalty Adjustment Act, with its requirement for authorization or consent, was substantially incorporated into 28 U.S.C. § 1498.[14]

The purpose and significance of § 1498 to the Federal Government is stated clearly and concisely in the Opinion of the Comptroller General, 38 Comp. Gen. 276, 119 U.S.P.Q. 187 (1958). This opinion followed the Comptroller General's decision in *Herbert Cooper*, B–136916 (August 25, 1958) (unpublished) and was requested by the Secretary of the Air Force to clarify what he felt were "broader implications" of the *Herbert Cooper* opinion. The Comptroller replied:

> "... It is suggested that the indiscriminate use of the right afforded to the Government under 28 U.S.C. 1498 would be inimical to and destructive of the public policy considerations underlying the patent law. It is our view, however, that section 1498 appears clearly to constitute a modification of the patent law *by limiting the rights of patentees insofar as procurement of supplies by the Government may be concerned*, and by vesting in the Government a right to the use of any patents granted by it upon payment of reasonable compensation for such use. We believe that the statute is not consistent with any duty on the part of a contracting agency of the Government to protect the interests of patentees or licensees *with respect to articles which it proposes*

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12 Act of June 25, 1948, ch. 646, 62 Stat. 941, 35 U.S.C. § 68, repealed by 62 Stat. 998 (1948).

13 Act of May 24, 1949, ch. 139 § 87, 63 Stat. 102 (1949).

14 Act of October 31, 1951, ch. 655, § 50(c), 65 Stat. 727. In the codification of Sec. 6 of the Royalty Adjustment Act, the words "sale, or other disposition" were omitted.

to purchase, since the statute itself defines and provides an exclusive remedy for enforcement of the patentee's rights as to the Government. Any other interpretation would appear to us to impose an impossible burden upon Government procurement officials to determine the applicability and validity of any patents affecting any articles desired.

"Where the procurement is to be made by formal advertising, it is our opinion, notwithstanding what was said in 13 Comp. Gen. 173, that there is no alternative to the securing of the maximum amount of competition from firms qualified and willing to undertake the production of the articles, subject, of course, to their willingness and ability to indemnify the Government against claims of patentees." (at 119 U.S.P.Q. 188) [Emphasis added]

Clearly, the position stated on behalf of the Government is that § 1498 relates to Federal *procurement* of goods and services.

C. The Requirement for Authorization or Consent is Separate and Apart from the Requirement that the Use or Manufacture of the Invention be for the Government.

In its opinion, the lower court concluded that "both the manufacture and use of the stabilization tank [in the YAQUINA] were with the authorization and consent of the Government". (CT 186). Although plaintiff does not take issue with this conclusion by the lower court for the purpose of this appeal, it is important to lay to rest one aspect of construction to be accorded § 1498.

It is not clear from the lower court's Opinion whether or not it considered the existence of the authorization and consent as *per se* "for the Government", and thereby concluded that § 1498 applied.[15] To so construe § 1498 would not only violate customary principles of statutory construction, but also is contrary to its statutory history and applicable case law.

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[15] This theory was postulated to the lower court by defendants-appellees.

The pertinent jurisdictional command of § 1498(a) appears in the first paragraph:

> "Whenever an invention . . . covered by a patent . . . is used or manufactured . . . for the United States without license . . . , the owner's remedy shall be by action against the United States in the Court of Claims . . . ."

The second paragraph of § 1498(a) further defines what "shall be construed as use or manufacture for the United States":

> ". . . use or manufacture . . . by a contractor, a subcontractor, or any person, firm, or corporation *for the Government* and *with the authorization or consent of the Government* . . . ." [Emphasis added]

This language is plain and unambiguous. The use or manufacture must be for the Government, and *also* with authorization or consent.

To urge that *with authorization or consent of the Government* is synonymous with *for the Government* is to ignore the presence of this latter phrase in the second paragraph of the statute and the conjunctive "and" appearing between the two phrases. Accordingly, under the definition of the second paragraph, use or manuufacture of an invention by a contractor, subcontractor, or any person, firm, or corporation is construed as use or manufacture for the United States *only* if the use or manufacture of the invention is *both* for the Government and with the authorization or consent of the Government.

Therefore, authorization or consent by the Federal Government aside, the manufacture or use required by the statute also to be *for the Government* has, in the factual circumstances of this case, not all been *for the Federal Government.* Hence, the jurisdictional exclusion of § 1498 does not apply.

This dual requirement of the second paragraph of § 1498(a) is consonant with the statutory history. The

authorization or consent language of § 1498 originated with the Royalty Adjustment Act which was enacted to reduce the liability of the Federal Government in connection with the utilization of patented inventions.[16] The incorporation into the pertinent section (Sec. 6 of the Act) of the authorization or consent provision served to limit the Government's liability to only those cases where the manufacture or use was for the Government and where the Government had actually given its authorization or consent to such appropriation of the patented inventions.

The Senate Committee on Patents, in its Report (S.Rept. 1640) on the bill (S. 2794) which became the Royalty Adjustment Act, pointed out that the bill was originally introduced by the War Department, and after hearing, it was decided that it should be modified:

> "... to clarify the language of the bill as introduced to show definitely that modification of the act of June 25, 1910 as amended, is only intended so far as the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm or corporation *acting for the Government* with its authorization or consent, shall be construed as use or manufacture for the United States ..." (at p. 5) [Emphasis added]

The effect of the Royalty Adjustment Act on the jurisdiction of the Court of Claims was considered by that Court in *Yassin* v. *United States*, 76 F. Supp. 509 (Ct. Cl. 1948). The case involved certain portable bridges used by Great Britain during World War II in Europe. The patent owner argued that the second half of Sec. 6 (Royalty Adjustment Act), which was the then existing predecessor to § 1498, extended the Court of Claims' jurisdiction to the manufacture, sale or delivery of patented inventions directly to Great Britain because it was done with the authorization and consent of the United States. However, the Court sus-

[16] Report of the House Committee on Patents (H. Rept. 2602).

tained the Government's demurrer because the manufacture, sale or delivery was not also "for the Government" of the United States (76 F. Supp. at pp. 518-520).

To the same effect is the language of Judge Maris in *Drexler* v. *Koza,* 88 F. Supp. 298 (W.D. Pa. 1950) where the Court allowed damages in an accounting only with respect to sales to commercial customers as opposed to the Federal Government. The Court pointed out:

> "... Section 6 of the Royalty Adjustment Act brought within the scope of what is now 28 U.S.C.A. § 1498 the manufacture and use of infringing devices by contractors, subcontractors or other persons *for the Government,* even though such devices were not actually used by the Government itself, but only if such manufacture or use was with the authorization or consent of the Government." (88 F. Supp. at p. 300) [Emphasis added]

Moreover, to adopt the defendants' interpretation would contemplate that § 1498 precludes injunction proceedings against private parties in connection with conduct wholly unrelated to the Federal Government, if such parties were in some way able to secure from the Government an authorization and consent document. Such power in the Federal Government in areas of clearly non-Government activity might be violative of the constitutional mandate for the patent system, ". . . securing for limited Time to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . ." (Article I, Sec. 8).

D. The Manufacture and Use of the Stabilizing Tank in the YAQUINA Was Not for the Federal Government.[17]

It should be apparent from the foregoing that the basic question presented on this appeal involves the construction to be applied the expression "for the Government" as it appears in § 1498(a). In light of the statutory history of § 1498 and the interpretations of judicial and quasi-judicial tribunals, the present circumstances do not properly fall within the category of manufacture and use of a patented invention "for the Government".

In particular, the manufacture and use of the stabilizing equipment installed in the YAQUINA were not *for* the United States for the following reasons:

1. Under the agreed facts in the Pretrial Order, it was stipulated that ''defendant Albina converted the FS 210 into the research vessel Yaquina for the State Board''. (PT Order Agreed Fact 32, CT 103).

2. The Agreement (Ex. 1184) between Oregon State University, controlled by defendant State Board of Higher Education, and defendant Albina for conversion of the

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[17] For the purpose of this appeal, plaintiff does not distinguish between the manufacture of the YAQUINA stabilizing system by defendant Albina and the use of the stabilizing system by Oregon State University, controlled by defendant State Board of Higher Education, as separate acts of infringement. All of the conversion and 50 per cent of the use of the YAQUINA have been paid for with grant funds. Therefore, if the Court agrees with plaintiff-appellant's interpretation of § 1498 and the National Science Foundation Act as they relate to grant funds, distinction is not necessary since the District Court has jurisdiction over those activities of defendants which are not ''for the Government.'' *Neff Instrument Corp.* v. *Cohn Electronics,* 269 F.2d 668, 672-673 (9th Cir. 1959) (Court reversed summary judgment dismissing Complaint under § 1498 defense since there was sufficient evidence to establish non-exempt infringements); *Northill Co.* v. *Danforth,* 51 F.Supp. 928 (N.D.Cal. 1942), aff'd 142 F.2d 51 (9th Cir. 1944) (jurisdiction retained to adjudicate infringement for only 0.59 per cent of total sales, it having been shown that 99.41 per cent of sales of accused device were to the Federal Government); *Drexler* v. *Koza,* 88 F.Supp 298 (W.D. Pa. 1950) (Court awarded damages only in connection with sales of accused device not to Federal Government).

YAQUINA expressly states: ". . . the Contractor . . . agrees . . . to construct and complete the work herein described . . . for the conversion of the research vessel 'YAQUINA' *for* Oregon State University, Corvallis, Oregon." [Emphasis added]

3. Similarly, the advertisement for bids for conversion of the YAQUINA stated: "Sealed bids will be received by the Oregon State Board of Higher Education . . . for the conversion of the research vessel 'YAQUINA' for the Department of Oceanography of Oregon State University." (Ex. 1225)

4. Defendant Albina was paid for the conversion work, including the infringing manufacture, by check from the Oregon State University as represented by defendant State Board of Higher Education (Caldwell Dep., Ex. 1104, p. 5). Indeed, defendant Albina looked only to Oregon State University for payment for the conversion. (Hussa Dep., Ex. 1113, pp. 4-5)

5. Defendant Albina had no knowledge or concern as to whether the United States Government was in any way interested in the conversion, or as to whether Oregon State University received any of the monies to pay for the conversion work from other sources, or as to whether it might be a Government subcontractor. (Hussa Dep., Ex. 1113, pp. 4-5, 7; Caldwell Dep., Ex. 1104, p. 6)

6. The vessel YAQUINA is *owned* by the State of Oregon and not by the United States Government. Dr. Burt testified by deposition:

> "Q So title to the vessel [YAQUINA] resides in whom?
> "A The hull, itself, the title remains in the State of Oregon, to the best of my knowledge." (Burt Dep., Ex. 1005, p. 4)

Furthermore, it was stipulated at the trial that for all practical purposes title to the vessel is vested in Oregon State. (RT 16)

7. Records of the United States Customs at Portland, Oregon, further establish the State of Oregon as owner of the YAQUINA. The vessel's being owned by the State and engaged in research is not documented. However, in the letter from Oregon State University to the Bureau of Customs, U. S. Treasury Department, Washington, D. C., requesting admeasurement, it is stated that the vessel "is now the property of the State of Oregon''. (Ex. 2006, CT 179)

Likewise, the letter dated August 21, 1964, from J. P. Tebeau, Assistant Deputy Commissioner of the Bureau of Customs, addressed to the Collector of Customs in Oregon State, states: ''YAQUINA, *owned by the State of Oregon,* will operate as a research ship and will not engage in trade." (Ex. 2007, CT 179)

8. The Certificate of Inspection of the YAQUINA, issued by the U. S. Coast Guard, designates the State of Oregon as *owner* and Oregon State University as *operator* of the vessel. (Ex. 2011, CT 179)

In the face of these facts, the lower court reached two conclusions which presumably formed the foundation for its decision that the manufacture and use of stabilizing equipment in the YAQUINA was ''for the Government'' (1) "oceanographic research, including 'basic' research of unknown practical application, has been recognized by the legislative and executive branches as vital to the interest of the U.S. Government", and (2) "the conversion and use of the YAQUINA, including the manufacture and use of the stabilization tank, were to equip it for such research, and therefore were 'for' the Government''. (CT 186)

Plaintiff does not take issue with either of these conclusions, but they do not warrant the ultimate conclusion that the conversion and use of the stabilizing equipment in the YAQUINA gives defendants an absolute defense under § 1498. The conclusion that oceanographic research is vital to the interest of the United States is an obvious

syllogistic conclusion from (1) the major premise that the Federal Government never spends public funds unless there is a Congressional and Executive recognition that the purpose for which funds are being spent serves the vital interest of the Federal Government, the nation, and promotes the general welfare of citizens, and (2) the minor premise that the Government is financially supporting such research. Even though financial participation by the Government in basic research in oceanography is desirable, equally so are any number of important projects: elimination of poverty; encouragement of public works; strengthening of the educational systems; support of state highway systems; relief from disasters; etc. The list is too long to enumerate. But financial participation, *per se,* does not make the end product *for* the Government when it does not involve the procurement of goods and services necessary to carry out a Governmental function.

The position of the lower court is best illustrated in its conclusion:

> "Where the Government finances the manufacture of a device and grants it to a private agency with the stipulation that it can only be used for specified purposes, and such use advances recognized vital interests of the U.S. Government, the conclusion is inescapable that such manufacture and use were 'for' the U.S. Government." (CT 188)

The only "specified purpose" in the grant to which the lower court refers is that the vessel be used "primarily for the conduct of basic scientific research". (Ex. 10) The grant does not require the YAQUINA to be used for the Government for Government research or for any Government purpose. Under the terms of the grant, the vessel can be used privately for profit so long as it is used for basic scientific research.

This quoted abstract statement of the lower court has no basis in the purpose for, or the legislative history of,

§ 1498. Can § 1498 realistically be construed to cover Federal financial assistance by way of grant or otherwise to each and every project or hardship to which the Federal Government contributes? Does the manufacture and use of a patented invention with such assistance automatically invoke § 1498 as "for the Government" and thereby preclude the patent owner from his basic injunctive rights under the Patent Laws? If so, there is very little commercial and non-commercial activity left in this country which is immune from § 1498 because of the extent to which Federal money today helps finance otherwise non-Federal business or activity.

But consider the opposite problem, will giving of grant or aid funds automatically subject the Government to liability in the Court of Claims when the recipient of the funds infringes a patent? Is the Federal Government going to assume responsibility for a grantee's conduct even though his activities do not contribute goods or services needed to carry out a Governmental function?

Furthermore, it would appear that the quoted conclusion of the lower court is somewhat at odds with two earlier decisions in the Ninth Circuit, *Systron-Donner Corp.* v. *Palomar Scientific Corp.,* 239 F.Supp. 148 (N.D.Cal. 1965), and *Consolidated Vacuum Corp.* v. *Machine Dynamics, Inc.,* 230 F.Supp. 70 (S.D.Cal. 1964).

The first case involved the manufacture and sale of certain accelerometers by the defendant which plaintiff alleged were an infringement of its patent. The defendant contended that all sales were for Government end use. After a trial on the segregated issue of § 1498, Judge Sweigert held, *inter alia,* that this statute did not preclude his jurisdiction over the infringing manufacture even though the subject equipment may eventually come into use by the United States, because such use was not required by the manufacture and sale. In the instant circumstances, there was no requirement in the conversion arrangements for

the YAQUINA that a stabilization system be put in the ship or that it be used for the Federal Government.

The second decision held that § 1498 did not preclude jurisdiction over a defendant which manufactured and sold testing equipment to Government contractors who, in turn, used the equipment to test devices sold to the Federal Government under contract.

The infringing manufacture and sale of the stabilization system in the YAQUINA is not affected by the fact that such equipment is subsequently used to stabilize a vessel on which some research is conducted for the Government.

Section 1498, as it stands today, is intended to relieve Government contractors from patent disputes in connection with Federal contracts. *Bereslavsky* v. *Esso Standard Oil Co.,* 175 F.2d 148, 149-150 (4th Cir. 1949). Congress never intended that § 1498 cover circumstances where Federal *support* funds help finance acts by third parties which create infringement controversies outside Government procurement.

E. National Science Foundation

The theory and purpose of the National Science Foundation Act is to stimulate American research in the basic sciences. The Foundation Act itself recognizes the grant as one means for initiating and supporting basic scientific research. 42 U.S.C. § 1862(a)(2). The character of a grant (as opposed to a contract) by the National Science Foundation is set out in a number of policy documents. For example, in the Memorandum to Members of the Senior Staff, Subject: Use of Contracts in the Conduct of NSF Programs and Activities, dated June 1, 1959, (Ex. 1139) the following appears:

> **"Criteria for the Use of Contracts as Contrasted to Grants.**
>
> "The principal guideline which should be employed in deciding whether, for a particular transaction, a

grant or contract should be employed is the following:

> "If the purpose of the transaction is to give *support* to an activity which under our statute we are supposed to foster and encourage, then a grant is usually the most appropriate instrument; if on the other hand the purpose of the transaction is to obtain services or information which is *desired or required by the Foundation in order to enable it to carry out its responsibilities,* then a contract is the most appropriate instrument." (p. 2) [Emphasis added]

Similarly, the 1966 Report of the House Committee on Science and Astronautics, *The National Science Foundation—A General Review of Its First 15 Years,* includes the following:

> "Contracts have traditionally been used when the nature of the end product sought is known and requirements can be made the subject of negotiation between the Government and interested parties, normally through competitive bidding procedures with the contract being awarded to the lowest bidder. Contracts are widely utilized for sponsoring engineering development projects with private industry. In the case of scientific research, however, even where answers are sought to explicit scientific questions, the success and thus the cost of attaining it are uncertain, and applications are generally unknown . . . .
>
> "Grants have been defined as 'essentially unilateral actions by the Government under which payments are made in advance of the investigations concerned for the purpose of encouraging, supporting, and stimulating the general research work of public and private institutions and individuals, based on a decision of Congress that the support of the work of such institutions and individuals will be of benefit to the public.' . . ." (House Doc. 317, 89th Cong., p. 44)

From this language, clearly a grant gives support to an activity, and is not used for procurement. If procurement is desired, a contract is the appropriate instrument. Accordingly, the expenditure of grant funds by a grantee is not

related to any procurement by the Federal Government, but rather to carry on some activity which the Government fosters, encourages, and supports. Therefore, the use or manufacture of a patented invention with such funds does not fall within the scope of the procurement protection of § 1498.

This interpretation is consonant with the Comptroller General decisions to the effect that the use of grant funds by the grantee is not subject to the restrictions of Federal statues. (See 28 Comp.Gen. 54 (1948); 25 Comp.Gen. 868 (1946); B-131324 (June 12, 1957); B-153348 (April 22, 1964).)

Another important factor to be considered is the degree of control exercised by the Federal Government. In procurement by the United States, such as that protected by § 1498, the contract is the classical device because of the control through legal safeguards which is available to the Government. Certainly, the restrictions associated with the grants to Oregon State University in this case are no more than to insure use of grant funds for the intended basic research. Again, it is significant that the grants in no way restrict for whom the research must be done. There is no requirement that the research be conducted for the U.S. Government.

The question of Federal control was intensively argued prior to enactment of the National Science Foundation Act in view of the fear that Federal support for research and graduate education would inadvertently bring Federal control that could stifle the creative forces which thrive best in academic freedom. House Document No. 317, Rep.Comm. on Science and Astronautics, *The National Science Foundation—A General Review of Its First 15 Years,* January 24, 1966. This Congressional intent to foster and encourage basic research without stifling the creative forces by Federal control is inherent in the grant authority permitted

the National Science Foundation. The grantee, through the principal investigator, is accorded wide latitude in pursuing interesting and important lines of inquiry without fear of interference by the Foundation which might inhibit intellectual curiosity and research initiative. National Science Foundation, *Grants for Scientific Research,* June 1963, as amended December 1963 (Ex. 1136), pp. 22-23.

Finally, the function of the National Science Foundation is *not* to *perform* research, but to encourage, promote and support research by other institutions. It was created "to promote the progress of science; to advance the national health, prosperity and welfare; and to secure the national defense." (Preamble to National Science Foundation Act) As pointed out in the Rep. Committee on Science and Astronautics, *The National Science Foundation,* 1966 (House Doc. No. 318), p. xiv, the legislative charter of the Foundation does not generally permit in-house research or technological activity. Therefore, its only job is to promote and support. The research work itself is not its work.

Accordingly, whether a grant from the National Science Foundation is an outright donation of funds or one with a few simple restrictions is immaterial to the issue. *The expenditure of the grant funds by the grantee is not in connection with any procurement by the Government. Hence, it is outside the scope of § 1498 which is intended to protect such procurement.*

This interpretation of § 1498 in connection with the instant facts was stated at an early date by Rear Admiral J. A. Brown, Assistant Chief of the Navy Department Bureau of Ships when directly queried by plaintiff. He wrote in a letter (Ex. 1056):

> "Since the ship [YAQUINA] will belong to the State of Oregon, if a flume stabilization system is installed (and something like it is contemplated), it cannot be done under the U.S. Government exemption."

To ignore the intent and purpose of § 1498 and the applicable provisions of the National Science Foundation Act relevant to grant policy in deciding the question posed in this case necessarily results in abstraction. When analyzing the provisions of these statutes together, the conclusion is inescapable that funding by the Federal Government in accordance with its grant authority under the National Science Foundation Act is unrelated to any procurement of goods and services by the Government, and, therefore, the activity of the grantee supported by the grant funds is *not* for the Government under § 1498.

CONCLUSION

The only matter before this Court is the proper interpretation to be accorded § 1498, first, as to whether it can be a basis to dismiss plaintiff's Fifth and Sixth Causes of Action and, second, whether defendants' manufacture and use of the stabilizing equipment in the YAQUINA was "for the Government" as that phrase appears in the statute.

The lower court failed to give any consideration to plaintiffs' Fifth and Sixth Causes of Action. Section 1498, insofar as pertinent to this litigation, affords a defense only to patent infringement causes of action. Accordingly, plaintiff's Fifth and Sixth Causes of Action, relating to violation of constitutional rights and trademark infringement, cannot be dismissed, and the Judgment entered below must be reversed for further proceedings in connection with these two causes of action.

The use of funds obtained from the Government by way of grant from the National Science Foundation for the manufacture and use of a patented invention, and not in connection with procurement of goods and services by the Government, is not "for the Government" within the meaning of § 1498. The lower court, mistaking the presence of the Government as financier for the manufacture and use of the YAQUINA stabilizing system, failed to perceive

the real intent and purpose of § 1498 and the National Science Foundation Act. Accordingly, the Judgment of the lower court dismissing the action should be reversed with directions to proceed with the remaining issues in the case.

Respectfully submitted,

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I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

APPENDIX

Exhibits of Record

	Identified[a]	Offered (Page of RT)	Received (Page of RT)
Plaintiff's Exhibits:			
1001-1187	CT 132-141		66
1188-1240	CT 83-89		66
Defendants' Exhibits:			
1-7	CT 142		66
8	CT 142	37	37
9	CT 142	43	43
10	CT 143	48	48
11-37S	CT 143-147		66
38	CT 147	64	64
39-59	CT 147-148		66
60	CT 148	48	66
61-71	CT 148-149		66
80-83	CT 150		66
83A	CT 150	65	66
83B	CT 150		66
84	CT 150		66
85	CT 150	40	40
86-90	CT 150		66
91A	CT 150	34	34
91B	CT 150	34	34

[a] All exhibits were either identified in the Pretrial Order (CT 94), supplemental document lists, or by a Stipulation. The appropriate references to the Court Transcript are set forth.

	Identified[a]	Offered (Page of RT)	Received (Page of RT)
Defendants' Exhibits (continued):			
92-126	CT 151-153		66
127	CT 153	65	65
128-202	CT 153-158		66
203	CT 158	50	50
204	CT 158		65
205-417	CT 158-169		66
418	CT 170	54	54
419-443	CT 170-172		66
444	CT 172	54	54
445-446	CT 172		66
447-451	CT 171		66
452	CT 171	58	58
453-454	CT 171		66
455	CT 171	58	58
456-459	CT 171		66
460	CT 171		60
461	CT 173	57	57
462-520	CT 173-176		66
521-583A	CT 78-81		66
584-590	CT 81	52	66
591A-595	CT 82		66
596-619	CT 91-92		66
Court Exhibits:			
2001-2015	CT 178-180	(By Stipulation)	

No. 22225

United States
COURT OF APPEALS
for the Ninth Circuit

JOHN J. McMULLEN ASSOCIATES, INC.,
Appellant,

v.

STATE BOARD OF HIGHER EDUCATION, et al.,
Appellee.

BRIEF FOR APPELLEE

Upon Appeal from the Judgment of the United States District Court for the District of Oregon

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Appellee.

BRIEF FOR APPELLEE

Upon Appeal from the Judgment of the United States District Court for the District of Oregon

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EXPLANATORY REFERENCE

Appendix A clarifies the varying teminology used to describe the ship's stabilization anti-rolling

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DX—Defendants' (appellees') exhibits introduced at trial.
PX—Plaintiff's (appellant's) exhibits introduced at trial.
CT—Clerk's Transcript.
RT—Reporter's Transcript of trial of Jan. 4, 1967.
State Board—Appellee Oregon State Board of Higher Education, an appointive body controlling and administering all state supported colleges and universities in the State of Oregon.
OSU—Oregon State University (controlled by appellee State Board).
NSF—National Science Foundation.

tank which is accused to infringe the appellant's patents. In addition, Appendix A more fully identifies certain U. S. Government officials and agencies, as well as other organizations having pertinent relationship with the appellees and the appellant.

STATEMENT OF THE CASE

The facts in this case are critical, because once they are understood, it will be clear that the appellees' allegedly infringing acts were done in furtherance of the purposes of the United States Government, and with the knowledge and consent of the Government. Thus, appellant's only legal recourse is against the United States in the Court of Claims pursuant to 28 U.S.C. 1498 for the appellant's just, reasonable and entire compensation.

Since the appellant's statement of the case omits many important non-controverted facts which clearly demonstrate that the United States did support, direct and influence the appellees' actions, a comprehensive outline of these facts is here set forth, together with a summary.

Summary:

Pursuant to a grant agreement (DX 10) with the United States Government, Oregon State University (controlled by appellee State Board), had appellee Albina convert a Government surplus vessel, the FS 210, into the oceanographic research vessel YAQUINA, with funds supplied under such grant

agreement. During the conversion, OSU, through appellee Albina, and with the Government's consent and acquiesence, installed in the ship a stabilizing anti-roll tank that appellant alleges infringes four United States patents. Nominal title to and possession of the vessel YAQUINA were left with OSU so that the vessel could be used for oceanographic research. The vessel was so used *solely* for U. S. Government agencies pursuant to grant agreements and contracts with such agencies. The overall question is whether the case is properly brought in the District Court, or should it be brought in the Court of Claims under 28 U.S.C. 1498 because the appellees' activities constituted manufacture (conversion) and use of the vessel for the United States.

Amplified Statement of the Case:

The United States Government discovered in the 1950's that there was a serious deficiency in its store of basic oceanographic knowledge, which threatened the national defense and the general welfare (DX 71). Congress and the President therefore initiated a national oceanographic program (see DX 54 for chronology) to be carried out in part by universities acting pursuant to arrangements with Government agencies (DX 49).

The Trial Court outlined the commencement of OSU's activities in oceanographic research at page 2 (CT 182) of its Opinion, as follows:

"Oceanographic research was started at OSU

> in 1954, financed at least in part by a contract with the United States Navy for performance of certain research projects. The research work required the use of a vessel, and in the early years of the program, OSU chartered small fishing vessels for this purpose. Later, OSU was permitted to use the ACONA, a U. S. Government vessel."

OSU's participation in the national oceanographic program grew rapidly. See page 1, DX 8, second paragraph which states:

> "During the past five years the budget has grown from $10,000 a year to an approximated $500,000 a year and the staff from 2 to over 50." (Also see DX 573b).

The need for a larger vessel was stated in DX 8, page 1, third paragraph, as follows:

> "Our research program has grown more rapidly than anticipated and has already outgrown the 80 foot, specially designed research vessel Acona, which was put in service in May, 1961. The department urgently needs a larger, more nearly all-weather vessel for the following reasons . . . (b) the rapidly expanding geophysical research program needs a larger, more *stable platform.* (c) We urgently need the ability to *operate* more nearly full time in the normally *bad operating weather* of the Northern Pacific ocean. Cruises cancelled because of weather delay all of the research programs." (Emphasis added).

A ship stabilization anti-roll tank would be helpful in allowing vessel operation in rough weather (RT 47, ll. 18-25).

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[1] DX 4.

Negotiations with NSF for Larger Vessel:

In February 1962 two proposals for a larger vessel were submitted by OSU to the National Science Foundation, a Government agency. The proposals, labeled Proposal I (DX 103) and Proposal II (DX 8) both contemplated in general terms a passive anti-rolling stabilization tank. Proposal I, for a new vessel, was subsequently dropped by OSU. Proposal II, at first rejected, was amended several times, with the second amendment contemplating the conversion of the FS 210 into the Yaquina. This amended Proposal II (DX 9) was formally accepted on June 7, 1963 by way of a grant instrument (DX 10), informal acceptance having been given earlier in the year.

Appendix B sets forth the negotiations in regard to Proposal II, the reference in these negotiations to the contemplated passive anti-roll stabilization tank, the assistance rendered by the Government in connection with the design of the tank, and the reference in these negotiations to appellant McMullen.

Vessel Conversion:

The grant agreement of June 7, 1963 (DX 10) provided for the conversion of the FS 210 by a "domestic shipyard," paragraph c, page 2 of DX 10.

Accordingly, OSU entered into a contract (DX 21) with appellee Albina Engine & Machine Works, Inc., on May 4, 1964 to convert the FS 210 into the oceanographic vessel YAQUINA.

The conversion work commenced on May 6, 1964. During the conversion work, a number of additions and/or alterations were made in the specifications all of which were approved by the Government, such matters being termed "Change Orders." One of these Change Orders, No. 6 (DX 22) included a drawing 3130-S11-3 (DX 591 a and b) which contained the specific details of the accused anti-rolling tank, which details were subsequently incorporated in the YAQUINA by appellee Albina. Change Order 6 was specifically approved by the Government by way of a letter dated August 28, 1964 (DX 220, and pretrial order, p. 10, Agreed Fact 31, CT 103).

Use of the Yaquina:

The conversion work was completed in September 1964. In October 1964, the YAQUINA was put to work by OSU performing basic research in oceanography *solely* for the United States, primarily for three Government agencies, the Department of the Navy, the Atomic Energy Commission and the National Science Foundation, as well as lesser amounts of work for the Public Health Service (DX 28, 39, 371).

All the operating and maintenance expenses for the YAQUINA (as well as for the ACONA) were paid for by the United States Government (RT 124, DX 376, DX 14, and DX 16).

In order to make certain that OSU's operation and use of the YAQUINA for the Government was

not interfered with by way of patent infringement suits, the Government through three Government agencies supplemented its previous consent with three papers, DX 1 from NSF, DX 2 from the Navy, and DX 3 from the AEC, such papers specifically consenting to the

> "past, present and future manufacturing and use of the YAQUINA in performing oceanographic research under the national oceanographic program shall be construed as manufacture and use for the United States. . . ." (DX 1, p. 2).

Pleadings:

In May 1965, appellant brought suit only on patent 3,054,373 against appellee State Board (which controls OSU), the State Board members, the President of Oregon State University, Wayne V. Burt, who was chairman of the Department of Oceanography at OSU, and Howard A. Linse, who is the master of the accused vessel YAQUINA.

The defendants filed a motion on July 19, 1965, to dismiss the complaint, or in the alternative for summary judgment because of the license (DX 7) under patent 3,054,373 and for other reasons.

Subsequently, on September 15, 1965, the complaint was amended to add three other patents relating to passive anti-rolling tanks and stabilization devices, and to add counts of unfair competition and trademark infringement, and to also add Albina Engine & Machine Works, Inc., as a defendant.

Appellees by way of answer filed September 9,

1966, made a defense that the suit was improperly brought in the District Court of the United States, and should instead have been brought against the Federal Government in the United States Court of Claims under 28 U.S.C. 1498 because this act provides that a patentee's *exclusive* remedy against private parties accused of patent infringement shall be in the Court of Claims in those cases where the private party's manufacture or use of an invention is for the Federal Government with the Government's consent or authorization, and that this situation existed in the present case.

The Trial Court heard the parties on January 4, 1967 on the special defense of 28 U.S.C. 1498 and the Court found for the appellees, i.e., that the suit should be brought in the Court of Claims, and dismissed the suit.

QUESTIONS ON APPEAL

1. Was the conversion (manufacture) and use of the YAQUINA and its anti-rolling tank for the Government with its consent or authorization?

2. Is there any difference in substance between a "grant" and a "contract"?

3. Was the dismissal of appellant's fifth cause of action proper?

4. Was the dismissal of appellant's sixth cause of action proper?

SUMMARY OF ARGUMENT

Appellant has failed to show that the findings of the Trial Court were clearly erroneous, which it must do in order to overturn such findings.

The Trial Court correctly dismissed the suit under 28 U.S.C. 1498 because the Federal Government consented to and authorized the manufacture and use of the YAQUINA and its anti-rolling tank, and such manufacture and use were clearly "for the Government" because:

1. The Federal Government discovered that national defense and general welfare were being impaired by a serious lag in oceanographic research, and determined that it was in the vital interests of the U. S. to overcome this lag.
2. The Federal Government determined that a rapid expansion, with federal funding and federal direction, of the oceanographic program at academic institutions was an important step in overcoming the oceanographic lag, and OSU was selected for rapid expansion.
3. The Federal Government determined that an important step in the expansion program was to increase the ships available for operation by academic institutions.
4. In order to provide OSU with the basic research tool of oceanography, a ship, the Federal government supplied OSU a Government

surplus vessel and the funds to convert such vessel into the oceanographic research ship YAQUINA according to plans approved by the NSF and by other concerned Government agencies.

5. OSU had a domestic shipyard, appellee Albina, convert the surplus vessel into the oceanographic ship YAQUINA in accordance with terms of a grant instrument with the Federal Government.
6. The vessel YAQUINA was thereafter used solely for carrying out oceanographic research for the Federal Government under existing and subsequently issued contracts and grant agreements between OSU and the Government.
7. The Government, and only the Government, provided funds for the operation and maintenance of the YAQUINA.
8. The Government required and received from OSU reports on the scientific information gained through the research services performed on the YAQUINA for various Government agencies.

The relationship between OSU and appellee Albina in regard to the conversion of the YAQUINA was precisely in accordance with the grant agreement between OSU and the NSF, and such relationship does not establish that Albina's efforts were for OSU rather than for the Government, because OSU was following the Government's instructions in its dealings with appellee Albina.

The leaving of nominal title to the vessel in OSU subject to stringent controls by the Government is in no way inconsistent with the manufacture and use of the YAQUINA (and its anti-rolling tank) being for the Government, and is actually a matter of form rather than substance.

28 U.S.C. 1498 is not restricted to procurement by the Government, and even if it were, the Government in the present case obviously procured the YAQUINA and its anti-rolling tank for the performance of oceanographic research services and such services were, in fact, carried out in accordance with contracts and grant agreements between OSU and various Government agencies.

The Navy's contracts for research services performed by OSU called for research work, which, in regard to the specificity and the type of the work to be done, was no different from that called for by the grant instruments between OSU and NSF, and performance of services for both agencies is obviously for the Government.

There was no gift of funds to OSU by virtue of the grant instruments between OSU and NSF.

The Trial Court's decision is not in conflict but is clearly in accord with decisional law. There is no merit whatsoever to the appellant's argument that the Trial Court's opinion is unclear in regard to the dual requirement of 28 U.S.C. 1498.

Appellant's charges that it was deprived of its

property without just compensation and without due process of law and its charges of unfair competition and trademark infringement are simply attempts by appellant to harass appellees, contrary to the spirit and intent of 28 U.S.C. 1498.

ARGUMENT

I

The Appellant Has Failed to Show That the Findings of the Trial Court were Clearly Erroneous.

The many differences between appellees' and appellant's statement of facts show that there is a dispute as to the facts. In addition, appellant's view of the facts is not believed to be entirely consistent with the findings of facts of the Trial Court (such findings being incorporated in the Trial Court's Opinion).

It is clear that the Trial Court's findings "shall not be set aside unless clearly erroneous" (Rule 52 of the Federal Rules of Civil Procedure). To the extent that appellant's version of the facts are inconsistent with the findings of the Trial Court, the Trial Court's findings are binding unless clearly erroneous.

II

Appellees Do Not Seek to Deprive Appellant of Compensation for Use of Its Patents, But Insist That Appellant Should Go to the Court of Claims for Its Reasonable and Entire Compensation.

The purpose of 28 U.S.C. 1498 is to enable the Government's programs to proceed without being tied

up in the District Courts in litigation by a patent owner against those non-federal persons, firms and organizations who carry out programs on behalf of the Government. Thus, 28 U.S.C. 1498 bars the patentee from recovering in the District Court against "a contractor, subcontractor or any persons, firm or corporation" involved in carrying out Government programs. It follows that the patentee must seek his remedy in the Court of Claims against the United States.

It is thus clear that appellees are not in any way seeking to deprive appellant of compensation for any use of its patents. To the contrary, if any of appellant's patent rights have been violated, it can and should obtain complete and entire compensation for such use in the Court of Claims pursuant to 28 U.S.C. 1498.

III

The Substance of the Relationship Between Appellees and the Federal Government Shows That Appellees' Actions Were for the Federal Government.

As shown in the Statement of the Case, the Federal Government supplied Oregon State University with a surplus vessel, the FS 210, and the funds to convert the vessel into the oceanographic research ship YAQUINA, approved the plans for conversion of the ship and its anti-rolling tank, paid for all the operating and maintenance expenses of the vessel, and the vessel was used solely by OSU for performing

oceanographic research in accordance with contracts and grant agreements with federal agencies. What could be clearer than that the conversion and use of the ship were for Government purposes. As the Supreme Court said in *Tcherepnin* v. *Knight*, 88 S. Ct. 548 (1967) at page 553:

> "Finally we are reminded that in searching for the meaning and scope of the word 'security' in the Act, *form should be disregarded for substance* and the *emphasis should be on economic reality.* S.E.C. v. W. J. Howey Co., 328 U.S. 293, 298, 66 S. Ct. 1100, 1102, 90 L. Ed. 1244." (Emphasis added).

Do appellees need say more?

IV

The Trial Court Correctly Dismissed the Suit under 28 U.S.C. 1498 Because the Manufacture and Use of the Yaquina and Its Anti-Roll Tank Were Clearly for the Government with Its Consent and Authorization.

Section 1498 of Title 28 of the United States Code provides that a charge of patent infringement must be brought in the United States Court of Claims for the patentees *entire* remedy in those cases where the accused structure is manufactured or used for the Government with the Government's consent or authorization. The pertinent portions of 28 U.S.C. 1498 are set forth as follows:

> "(a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States

without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and *entire compensation* for such use and manufacture.

"For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, *shall be construed as use or manufacture for the United States*." (Emphasis added).

There are thus only two points to consider: (A) was the manufacture and use of the YAQUINA (and its anti-roll tank) for the Government, and (B) did the Government give its consent and/or authorization to such manufacture and use. The Trial Court found in the affirmative on both points and stated at page 6 of its Opinion (CT 186):

"From the evidence in the case at bar, the Court concludes that (1) oceanographic research, including 'basic' research of unknown practical application, has been recognized by the legislative and executive branches as vital to the interests of the U. S. Government; (2) the conversion and use of the YAQUINA, including the manufacture and use of the stabilization tank, were to equip it for such research, and therefore were 'for' the Government; and (3) both the manufacture and use of the stabilization tank were with the authorization and consent of the Government."

The appellant admits (page 15 of its appeal brief) that the Government gave its consent and authorization[2] for the conversion and use of the YAQUINA and its anti-roll tank but denies that these were "for the Government."

The Court's specific findings in support of its Opinion that the conversion and use were "for the Government" are incorporated in appellees' arguments, which are discussed hereinafter under eight headings labeled A through H.

A. The Federal Government discovered that national defense and the general welfare were being impaired by a serious lag in oceanographic research, and dermined that it was in the vital interests of the U. S. to overcome this lag.

The U. S. Government, through studies by the Executive Branch and Congressional hearings, discovered in the 1950's that there was a serious gap between its store of basic oceanographic knowledge and that of other principal countries of the world. Many of the pertinent studies and documents showing this gap and its seriousness are listed in a federal pamphlet entitled "Abridged Chronology of Events Related to Federal Legislation of Oceanography 1956-1965" (DX 54). One of the prominent papers listed is Senate Resolution 136 (DX 71) wherein at page 11395 it is stated:

---

[2] The full measure of OSU's disclosure to the Government and the Government's authorization and consent are evident from Appendix B of this brief.

"*Resolved*, That the Senate—

(1) commends the report of the Committee on Oceanography to the President, the Bureau of the Budget, and to the heads of the five departments and nine agencies which would participate in the ten-year program of oceanographic research recommended by the Committee, for their study and consideration with a view to *overcoming this Nation's lag* in this scientific field, and urges their support of a comprehensive plan that will assure the United States permanent leadership in oceanographic research;" (Emphasis added).

The Trial Court, commencing at page 6 of its Opinion (CT 186) found that:

". . . (1) oceanographic research, including 'basic' research of unknown practical application, has been recognized by the legislative and executive branches as vital to the interests of the U. S. Government; . . ."

* * * * *

"The prime indication that 'basic' oceanographic research has been recognized as serving vital interests of the U. S. Government is the dedication of substantial sums of government funds in support of such research. That conclusion is also indicated by reports of government agencies and transcripts of Congressional hearings which are in evidence. The ten-year plan for support of oceanographic research, published in 1963 by the Inter-agency Committee on Oceanography of the Federal Council for Science and Technology, lists some of the goals of government support for oceanographic research. They in-

clude the improvement of national defense, the utilization of the sea as a source of food and other resources, the possibility of using the sea for disposal of nuclear wastes, the safeguarding of public health, and the safeguarding of lives and property from storms at sea and from dangers to navigation. But at the head of the report's list of goals is the strengthening of basic science through the sponsorship by the Government of 'basic' research of unknown practical application. Of such research, the report states:

> 'We know from experience in war, in tough economic competition, and in man's fight for a life free of poverty and disability that research pays. It is the Federal Government that, in oceanography as in other fields, has strengthened basic research to provide the reservoir of intelligence needed to satisfy specific practical objectives. It must thus assume some responsibility for training and educating highly skilled manpower that it consumes, including the sponsorship of basic research undertaken by graduate students and their faculty advisors.'

The Court therefore concludes that basic research in oceanography has been recognized by the legislative and executive branches as serving vital interests of the U. S. Government." (Emphasis added).

The appellant apparently agrees with the Court's findings on the point discussed above, because on page 21 of its brief before this Court, the appellant (plaintiff) states:

"Plaintiff does not take issue with either one of these conclusions, . . ."

One of these conclusions (actually a finding of *fact*) was the Trial Court's finding (1) quoted above.

B. The Federal Government determined that a rapid expansion, with federal funding and federal direction, of the oceanographic program at non-profit institutions was an important step in overcoming the oceanographic lag, and OSU was selected for rapid expansion.

Evidence of the Federal Government's position on the necessity of expansion of oceanographic research can be seen in Senate Resolution 136 (DX 71) which found that:

> ". . . *expanded studies* of the oceans and the ocean bottoms at all depths are *vital* to defense against enemy submarines, to the operation of our own submarines with maximum efficiency, to the rehabilitation of our commercial fisheries and utilization of other present or potential ocean resources, to facilitating commerce and navigation, and to expand our scientific knowledge of the waters, and phenomena which affects climate and weather;
>
> ". . . several other nations, particularly the Union of Soviet Socialist Republics are presently conducting oceanic studies of unprecedented magnitude . . . .
>
> * * * * *
>
> (3) concurs in the recommendations of the Committee on Oceanography that—
>
> (a) basic oceanographic research be immedi-

> ately *expanded* and at least doubled within the next ten years;" (Emphasis added).

The strong interest of the Navy in expanding oceanographic research is outlined in Project TENOC, "The Next Ten Years in Oceanography, A Survey of the Growth Potential at Existing Institutions" (DX 46a) issued in October 1958. Pertinent excerpts are as follows:

> "1. The enclosed program explains how the Navy can *expand* the current effort in oceanographic research during the next ten years.
>
> 2. The ocean is interposed between every system developed for the operation and detection of submarines and mines, and the successful application of these systems. . . . Oceanography forms the broad platform of knowledge which must be strengthened in order to support the applied problems facing the Navy.
>
> * * * * *
>
> "The United States Navy has a unique opportunity to supervise and foster the proper development of oceanography. Steadily increasing sponsorship should help ready us to nullify any threat from the seas." (DX 46a, Preface).

In the third paragraph of the TENOC report on page 1 (sheet 5) it is stated:

> "Only the major civilian laboratories have been included and no recommendations have been made concerning the Navy's laboratories."

At the lower part of such page it is stated:

"The following report was compiled by the authors as the culmination of their long felt need for steadily increasing emphasis on oceanography by the Navy. The directors of the laboratories discussed were consulted as a matter of formality *to determine whether they would or would not be willing to expand in size.*" (Emphasis added).

The NASCO[3] Report (DX 48) which was favorably reported on in Senate Resolution 136 (DX 71) strongly recommended a rapid expansion of the oceanographic program at academic institutions as being necessary to overcome the oceanographic lag. The following quoted sections from the NASCO Report show this:

"Private foundations and universities, industry and state governments should all take an active part in the recommended program of expansion." (DX 48, Ch. 1, p. 8).

"5. Academic Association: The vigor and well-being of our universities is essential for the continued leadership of U. S. science. . . . *Appropriate research facilities must be available at the universities* and under their controls.

"Universities also are experienced in offering tenure positions to key personnel and in guarding these positions against capture by inferior persons. It would strengthen the national scien-

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[3] The National Academy of Science is a private, non-profit organization which is required by its charter to serve as science advisor to the Federal Government. The so-called NASCO Report (DX 48) by its committee on oceanography was requested and financed by several Government agencies.

tific establishment greatly if *a large fraction of the basic research in all fields of science could be under university administration.* . . . .

"As a corollary, the Committee recommends against building major research facilities for oceanography outside the nation's university system." (DX 48, Ch. 2, p. 4 Emphasis added).

In some of the earliest reports recommending the national oceanographic program, Oregon State University Department of Oceanography was mentioned as one of the facilities to help carry it out and was marked for special development under it.

The NASCO Report (DX 48) for 1959, discussing the activities of the ONR directed toward fostering research stated:

"Furthermore funds were provided for the development of new laboratories. In this way (and with continued help from the Bureau of Ships), the existing laboratories were strengthened and some new laboratories were encouraged to evolve.

"*Postwar Growth*

New laboratories developed after the war include . . . the Department of Oceanography at Oregon State College . . ." (DX 48, Ch. 11, p. 15).

One of the institutions selected for expansion by the 1959 TENOC report (DX 46a, pp. 22, 23) was Oregon State College (now Oregon State University). The program being carried on at Oregon State at the time of the TENOC report showed an annual budget of only $10,000, with the Navy providing

90% of the total, and a total staff of only 4 persons. The Navy recommended at pp. 22, 23 of DX 46a:

1. That research studies should be made.

2. That personnel increase should be made.

3. That vessels should be added—specifically that a 60-65′ boat, an Army T boat should be made available for coastal work—cost $250,000.

It is clear therefore that the direction for expansion of OSU's activities in oceanographic research and the funds for that expansion came from the Federal Government, and the purposes of the direction and funds were to shape OSU into a vehicle for carrying out vital national oceanographic research.

The support by the Federal Government for the oceanographic program at OSU is not only evident from DX 573b, but is set forth in the pretrial order in the form of Agreed Fact 12 (CT 100), which discloses that from 1954 through 1965, the Federal Government provided $7,249,175, while Oregon State University provided only $467,190 or less than 7% of the total of the support of the Department of Oceanography.

C. The Federal Government determined that an important step in the expansion program was to increase the ships available for operation by universities.

The Trial Court, at pages 2 and 3 (CT 182 and 183) of its Opinion, stated:

"Governmental support of oceanographic research was substantially expanded in 1959 with the establishment of a special agency to coordinate the activities of the many government agencies which benefit from and sponsor oceanographic research. The ten-year plan published in June of 1963 by that agency, (which is in evidence) states that one of the ways such support would be implemented in the decade following 1963 is by the *addition of seagoing research vessels to the fleets* of private laboratories and *university departments*, using NSF and Navy funds." (Emphasis added).

The "special agency" is the Interagency Committee on Oceanography and the ten-year plan referred to by the Court is DX 49, entitled "Oceanography—The Ten Years Ahead."

The national oceanographic program set as one of its major goals the building of a fleet of oceanographic research ships to carry out the research envisaged by the program.

The NASCO Report (DX 48) stated:

"Of particular importance among the facilities are ships, which are to the oceanographer what cyclotrons or reactors are to the nuclear physicist. He simply cannot undertake adequate research without them." (DX 48, Ch. 1, p. 5)

* * * * *

"6. Facilities: Ships, wharfs, and laboratories are required if any of the existing oceanographic research institutions are to be expanded. These facilities are too expensive to be funded, on the necessary scale, from non-federal sources.

Consequently, a high proportion of the cost of constructing and operating these facilities must be provided by the federal government." (DX 48, Ch. 2, p. 4).

* * * * *

"1. Basic Oceanographic Research Ships

These are the ships being used by the various private laboratories, but their operations are largely supported through government contracts. . . . These are the ships that are doing most of the basic research, that represented our country during the IGY, that are developing new techniques and methods, and that are producing the ideas and observations on which advanced design weapon systems in undersea warfare are based to a considerable extent. . . .

If oceanography is to grow at the rate of about 10% per year for the next 10 years, and such is the primary conclusion of this report, then it will be necessary not only to double the number of ships engaged in basic research, but also to give them improved capabilities.

". . . *Since this is the activity on which the effectiveness of all the rest of the program depends, first priority must be given to the construction of research ships.* Without a stockpile of basic research information the more routine activities of the other classes of ships will not keep us in the forefront of marine science." (DX 48, Ch. 6, p. 7).

Senate Resolution 136 (DX 71) urged that:

"(e) research fleets of the various agencies and institutions engaged in basic or applied oceanographic research, of which most of the ves-

sels are old and obsolete, be replaced by modern ships adopted to oceanwise scientific studies and furnished with advanced scientific equipment, and that the number of ships be increased substantially;" (DX 71, Congr. Record, p. 13455).

D. In order to provide OSU with the basic research tool of oceanography, a ship, the Federal Government supplied to OSU a government surplus vessel and the funds to convert such vessel into the oceanographic research ship Yaquina according to plans approved by the Federal Government.

When it became evident to OSU that the Navy vessel Acona was inadequate to handle the oceanographic research load which OSU was performing for the Navy and NSF, OSU made inquiries and found that the NSF had funds available for ship construction and negotiations were begun with that agency. That the NSF, rather than the Navy, had such funds available was in accordance with Section 4 of the Executive Order 10521 (March 17, 1954, 19 F.R. 1499, as amended by Executive Order 10807, Sec. 6b, March 13, 1959, 24 F.R. 1899), which stated:

> ". . . The Foundation shall be increasingly responsible for providing support by the Federal Government for a general-purpose basic research through grants and contracts."

A number of proposals and amendments were made to the NSF in connection with a larger research vessel. Appendix B shows the chronology of the negotiations and shows that a second amendment (DX 9) to Proposal II for the conversion of a surplus FS

vessel was accepted by the NSF. The FS vessel was released from the Government surplus stocks to OSU for use for educational and scientific purposes (DX 588), and the money for its conversion was provided by the NSF under the grant agreement instrument DX 10 and supplemental paper DX 12. The conversion was to be in accordance with plans which had been approved by the NSF and by other concerned Government agencies.

An examination of the record demonstrates the close involvement and supervision of the Government in the selection of the FS hull and in the design and conversion of that hull into the YAQUINA. Under the terms of the grant agreement (DX 10), the plans and specifications for the conversion were required to be approved by the NSF, which also had the right of inspection. The plans and any changes in them were in fact so approved. In addition to NSF approval, the plans and specifications were examined and suggestions made concerning them by the Navy Bureau of Ships (DX 144), the Maritime Administration (DX 595), and the Bureau of Commercial Fisheries (DX 89). Thus, the Government, by these inspection and approval requirements, retained close control of the conversion of the FS 210 into the YAQUINA sufficient to assure that the YAQUINA would be able to fulfill its function as a member of the national fleet of oceanographic research ships.

It is obvious then that it was the policy of the

United States Government to establish a fleet of oceanographic research ships as the prime instruments for providing the oceanographic knowledge needed for Government purposes and that these ships were to be under the operation and nominal ownership of certain non-profit (university) laboratories, upon which the Government relied to carry out much of the federal oceanographic program. Further, it is obvious that the YAQUINA was intended by the Government to be part of this national research fleet, because the Government provided the hull, money for conversion, consultation on, approval and supervision of the conversion process of the YAQUINA and further provided that she should be used only for basic research.

E. OSU had a domestic shipyard, appellee Albina, convert the surplus vessel into the oceanographic ship Yaquina in accordance with the terms of the grant instrument with the Federal Government.

The record is clear that the Government surplus vessel FS 210 was converted into the oceanographic ship in accordance with the terms of the grant instrument (DX 10) between OSU and the Federal Government. The grant instrument specifically outlined the procedure that OSU should follow in converting the FS 210, namely, through a "domestic shipyard" (DX 10, p. 2, paragraph c), and set forth that bids for conversion should be solicited, and that a contract should be entered into by OSU with a contractor who would perform the conversion work.

OSU followed the dictates of grant instrument (DX 10) and on May 4, 1964 entered into a contract (DX 21) with appellee Albina for the conversion work. Agreed Fact 32 of the pretrial order (CT 103) states:

> "32. Between the dates of May 6, 1964, and September 28, 1964, defendant Albina converted the FS 210 into the research vessel Yaquina for the State Board pursuant to the Agreement dated May 4, 1964."

The May 4, 1964 Agreement is DX 21, referred to above.

F. The vessel Yaquina was thereafter used solely for carrying out oceanographic research in accordance with existing and subsequently issued contracts and grant agreements between OSU and the Government.

After being commissioned, the YAQUINA was used *solely* for carrying out oceanographic research for the United States Government, particularly for the Navy Department, NSF and Atomic Energy Commission, with a minor amount done for the Public Health Service (DX 28, 39, 371, 573b). The Trial Court refers to the uses of the YAQUINA at page 4 (CT 184) of its Opinion.

In addition, Dr. Burt testified at RT 97 that the vessel had been used solely for oceanographic research for U. S. Government projects.

In addition, DX 28, 39 and 371 show in graphic form the use of the YAQUINA, DX 28 showing the number of days that the research vessel was used

for each of the three primary users during the first three years of operation up until August, 1966, the Navy, NSF and AEC. DX 39 is a series of tables which was prepared for federal auditors showing the use of the ship during any one of the cruises in terms of fractions of a day for any one of the principal users, the Navy, NSF and AEC.

G. The Government, and only the Government, provided funds for the operation and maintenance of the Yaquina.

The operation and maintenance costs of the YAQUINA were paid solely by the Federal Government (DX 376). This was testified to by witness Burt at RT 124 as follows:

> "THE COURT: Well, all of the operating costs have been paid by these three agencies since the vessel was commissioned, although it is possible in the earlier days the percentages may have been different?
>
> THE WITNESS: Correct, sir; yes."

In the Trial Court's Opinion at page 4 (CT 184), the Judge states:

> "The costs of operation and use of the vessel have been financed approximately as follows: 50% by grant from the NSF; 40% under research contracts with the Navy; and 10% under contracts with the Atomic Energy Commission ('AEC')."

In addition, all the research work done aboard the YAQUINA was paid for by the Federal Govern-

ment and was done pursuant to contracts and grant agreements with the Federal Government (DX 573b). The bar graph "Distribution of Time at Sea of Yaquina (Sept. 1964-Aug. 1966)" (DX 28) clearly shows that all research done aboard the YAQUINA was under the auspices of various federal agencies.

H. The Government required and received from OSU reports on the scientific information gained through the research services performed on the Yaquina for various Government agencies.

The Government required that the results of all research work done for it under grant agreements be incorporated in reports furnished to the Government.

The requirements of the NSF for reporting are set forth in each research grant instrument. In the earlier years, a typical requirement is set forth in the letter of September 29, 1964 from the NSF to Wayne V. Burt (DX 337) wherein Section 2 requires:

> "A final technical report at the termination of the work."

The third section of DX 337 specifies that four reprints of all publications that result from the work supported by the grant are to be furnished to NSF.

Reporting requirements for later grants, such as DX 348 were controlled by DX 60 which states:

> "A short informal annual report and a more comprehensive report at the termination of the

grant are required. When the grant is for a period of one year or less, only a final report is required. It is requested that the final report contain a chronological bibliography of all publications resulting from the work aided by the grant. Four reprints of each publication should be provided as soon as such reprints become available. If adequate to serve that purpose, they may be submitted in lieu of annual reports. The Foundation would appreciate being informed of any results of unusual interest whenever they occur. . . . .

Fiscal Reports

"Interim fiscal reports are required annually, regardless of whether any funds have been spent during that period for each grant, in addition to a final fiscal report. . . . The final fiscal report should be forwarded to the Foundation within 90 days after work under the grant has been completed."

DX 199 (Contract No. AT (45-1) 1750 between the AEC and OSU, dated June 22, 1962, controls reports to the AEC.

The contracts with the Navy contained requirements that reports be rendered in a manner similar to those of the NSF and the AEC.

OSU did in fact report to the Government agencies on its research work (RT 105 and 106), as is evidenced by typical reports DX 613, 614, 615, 616, 617, 618 and 619.

ARGUMENTS COUNTERING THOSE OF APPELLANT

I

Appellant's Arguments That the Manufacture and Use of the Yaquina and Its Anti-Rolling Tank are Not for the Government But for OSU are Based on Matters of Form, Not Substance.

Appellant sets forth eight points at pages 19-21 of its brief why the manufacture and use of the YAQUINA and its stabilizing tank were not for the Federal Government. Of the eight points, the first five argue that since OSU's name appears on various contracts, solicitation for bids, etc., the actions of the appellee Albina, the contractee shipbuilding firm which did the conversion work on the YAQUINA, were for OSU rather than for the Federal Government. In other words, appellant's argument is that a name on a document determines all the legal realities of the relationships involved. This is nonsense. All the relevant circumstances of the situation must be considered. Appellant plainly ignores the fact that the actions of OSU in relation to appellee Albina were determined and controlled by the terms of the grant agreement DX 10 between OSU and the National Science Foundation. That agreement provided as a special condition on page 2 thereof:

> "c. The converting and outfitting of the vessel will be performed by a domestic shipyard and in conformance with a Buy American Act (41 U.S.C. 10a-d)."

It is evident that the selection of appellee Albina, a domestic shipyard, fulfilled the conditions set forth by the Government.

Appellant's third point, complaining about the advertisement for bids being in the name of OSU, is similarly totally without merit for the above reasons. The manner of solicitation of bids for the conversion work was controlled by the grant agreement (DX 10), and the fact that the solicitation for bids was done in the name of OSU was a mere technicality. Paragraph "b" on page 2 of DX 10 sets forth that the manner of solicitation of bids shall be controlled by NSF and states:

> "b. The grantee will submit detailed plans, drawings and specifications for converting and outfitting, together with detailed cost estimates based thereon, for approval by the Foundation prior to solicitation of bids. The grantee will also submit for concurrence by the Foundation:
>
> (1) criteria for the selection of a contractor,
>
> (2) proceeds for the solicitation of bids, and
>
> (3) procedures for supervision and inspection of the converting and outfitting."

OSU complied with the requirements of paragraph b set forth above, by way of a letter of November 27, 1963 (DX 206). In a reply letter of December 26, 1963 (DX 87), the Federal Government stated:

> ". . . the Foundation concurs with your criteria for selection of a contractor, *procedures for solicitation of bids*, . . ."

"The Foundation also approves your plans and specifications as submitted, subject to whatever modifications are necessary after your consideration of the enclosed comments of the Maritime Administration and those of the Bureau of Ships and Bureau of Commercial Fisheries previously forwarded." (Emphasis added).

In summary then, in regard to appellant's first five points, OSU was simply complying with the terms of the grant agreement DX 10 in contracting with appellee Albina in OSU's name. It is evident thus that OSU was merely acting as an agent of the Government and pursuant to the exact terms of the grant agreement.

It is further pointed out that 28 U.S.C. 1498 nowhere requires that the Federal Government's name must be on all documents and agreements involved in work done under an arrangement with the Government. In fact, the protection of section 1498 is obviously intended to cover both direct and indirect relationships with the Government because it refers to actions of:

"a contractor, a subcontractor or any person, firm or corporation for the Government. . . ."

Thus, 28 U.S.C. 1498 contemplates covering organizations and persons acting at several steps removed from the Government, as long as they are acting "for the Government." Neither the law nor the cases hold that the name of the Federal Government has to appear on any particular document in order for the ac-

tion pursuant to that document to be "for the Government."

By way of points 6, 7 and 8 on pages 20 and 21 of appellant's appeal brief, appellant asserts that OSU *owned* the YAQUINA and thus the YAQUINA could not be manufactured or used "for the Government." The reasoning behind this is not clear and appellant cites no law to support its point. OSU could well have owned the YAQUINA outright and still *used* it *for the Government* and this alone would be sufficient to dispose of the case.[4] In any event, however, OSU *did not own* the YAQUINA. It had only nominal title subject to powerful controls by the Government. As the Trial Court said at pages 7 and 8 of its Opinion (CT 187, 188):

> "On the question of whether the conversion and use of the YAQUINA, and the manufacture and use of the tank were 'for' the government, plaintiff points out that title to the vessel passed to the State of Oregon when the vessel was transferred from the Government; that Customs and Coast Guard documents since that time show the State as owner of the vessel; and that a state agency contracted for the conversion of the vessel for research purposes and was responsible for paying the costs thereof. From this, plaintiff concludes that the conversion and use of the vessel, and the manufacture and use of its stabilization tank, were 'for' the State, not the U. S. Government.
>
> * * * * *

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[4] See Appendix C for a development of this argument.

> "The Court concludes that to accept these arguments would be to permit the *form of the relationship* to govern *while ignoring the substantive interests* involved. While it may be true that for some purposes the State held title to the vessel, the grants under which the vessel was acquired and under which the conversion was made imposed *severe limitations upon the State's ownership.* Those restraints, as discussed above, included restrictions upon the use of the vessel and against any disposal of the State's interest in the vessel without the consent of the U. S. Government." (Emphasis added).

For a more complete discussion of the full measure of Government control over the YAQUINA, see Appendix D of this brief.

II

Appellant's Argument that 28 U.S.C. 1498 is Limited to "Procurement" is Not Supported by the Act or by Decisional Law.

At pages 14 and 15 of appellant's brief, appellant argues that 28 U.S.C. 1498 applies only to "procurement of goods and services." Appellant never defines what he means by "procurement." The word does not appear in 28 U.S.C. 1498. This code section requires only that the manufacture or use be "for the Government" with its authorization or consent.

In any event, the case cited by appellant to support its position *totally fails* to do so. The Comptroller General in 38 Comp. Gen. 276, 119 USPQ 187 (1958) was merely answering an inquiry by the

Secretary of the Air Force. The Air Force had been obtaining oxygen masks from a company that had a license under certain *method* patents of Roberts which were used in producing the masks. When bids were put out for a further supply of oxygen masks, the low bidder was Herbert Cooper Company, which did not have a license under the Roberts' method patents. The Air Force was convinced that the manufacture of the masks would entail infringement of the Roberts' method patents. To avoid patent infringement difficulties, the Air Force pleaded with the Comptroller General that the Air Force be permitted to continue obtaining the masks from a licensee under the Roberts' patents. The Air Force argued that the Comptroller's previous decision of August 25, 1958 was too broad and that the Air Force should be allowed to purchase from a licensee who made a higher bid, in cases where there was no doubt as to the validity of the patents concerned. The August 25th decision held that the Air Force must purchase from the lowest bidder regardless of its patent position.

In his opinion of 38 Comp. Gen. 276, 119 USPQ 187 (1958), the Comptroller General decisively rejected the Air Force's request and fully reinforced his decision of August 25, 1958 and held the Air Force *must* make an award to the lowest bidder, whether or not he had a license. Since the case involved procurement of oxygen masks, naturally the Comptroller General made *reference* to procurement of articles. There was absolutely no intent in the decision that

28 U.S.C. 1498 be *limited to procurement of articles.* This is manifestly clear because the Comptroller General did not even mention that *services* were to be covered under 28 U.S.C. 1498, which the Comptroller General would have obviously done had he had any intent of defining the limits of 28 U.S.C. 1498 (and he clearly had no such intention). In any event, it is manifestly *outside* the limits of the Comptroller General's authority to attempt to define the overall coverage of 28 U.S.C. 1498. That decision is up to the courts.

In the subsequent lawsuit of *Roberts et al* v. *Herbert Cooper Co., Inc.*, 236 F. Supp. 428, 143 USPQ 345 (D.C. Pa., 1959) by the patentee against Herbert Cooper, the action was dismissed for trial in the Court of Claims on the ground that the use of the *method* patents in producing *articles* for the Government fell under 28 U.S.C. 1498. If the use of *method* patents for producing *articles* for the Government is covered by 28 U.S.C. 1498, then obviously the use of an *article* for performing *services* for the Government clearly falls under § 1498.

III

Even If 28 U.S.C. 1498 is Construed to Cover Only Procurement of Articles and Services by the Government, the Government in the Present Case Did Procure Oceanographic Research Services from OSU.

In appellant's argument that 28 U.S.C. 1498 is limited to "procurement" of articles and services for

the Government, appellant obviously assumes that basic oceanographic research is not a service procurable by the Government. It is pointed out that the Navy had a valid binding contract (DX 4, 14 and 23) with OSU for the performance by OSU of basic oceanographic research services, paid for by and reported to the Navy. Does appellant assert that these services were not "for the Government" and that the Navy in "procuring" such services is barred from having OSU make use of patented equipment? If this interpretation of the law were correct, then a substantial part of the national oceanographic research program would have to be carried out *only* by Government agencies, barring them from obtaining the assistance of non-federal institutions. This would mean the creation of gigantic national oceanographic laboratories which is contrary to the strong recommendations in the NASCO report (DX 48) which in Chapter 2, page 4, stated:

> ". . . The Committee recommends against building major research facilities for oceanography outside the nation's university system. 'National Laboratories' may be essential in some instances where security and inordinately high budgets are involved, but if they continue to increase in number and diversity we must be prepared to face two serious consequences: (1) the staff members of such laboratories will lose the intellectual stimulation that is the most valuable feature of a university; and (2) the nation as a whole will suffer from the deterioration of its universities that a continued spawning of National Laboratories would surely engender.

> This issue transcends the immediate short term problems of research in oceanography or any of the other sciences."

Perhaps the appellant's real point is that it admits that basic oceanographic research services can be "procured" by *contract* but cannot be "procured" by *grant*. If so, appellant's complaint is not about the *nature* of the services performed but the *form* of the arrangement utilized by the Federal Government in getting done what it wanted done, i.e., basic oceanographic research services. The Trial Court thought this was appellant's position because the Court stated at pages 7 and 8 of its Opinion (CT 187, 188):

> "Furthermore, plaintiff argues that at least to the extent that the research work being done aboard the YAQUINA has been financed by grants, such research was not 'for' the Government because: (1) the NSF which made the grants, is not itself charged with the responsibility of doing the research; and (2) where one donates funds for expenditure on a project by another, it does not necessarily follow that the project is being done 'for' the donor.
>
> "The Court concludes that to accept these arguments would be to permit the form of the relationship to govern while ignoring the substantive interests involved . . . Where the Government finances the manufacture of a device and grants it to a private agency with the stipulation that it can only be used for specified purposes, and such use advances recognized vital interests of the U. S. Government, the conclusion is inescapable that such manufacture and use were 'for' the U. S. Government."

The above statements of the Trial Court should clearly dispose of appellant's position, but appellees make a further point and that is that there is nothing about grants that excludes them from being used for "procurement", if, indeed, procurement is necessary. The Decision of the Comptroller General in 42 Comp. Gen. 289 (B-149441) states at page 293:

> "The term 'grant' as used in the statutes is subject to a variety of meanings, viz, contribution, gratuity, gift, method of payment or *procurement.* See 38 C.J.S. 1066-1068, Craig v. Mercy Hospital, 45 So. 2d. 809. Consequently, the meaning of this term as used in the statutes quoted above is to be determined from its connection and the manner of its use." (Emphasis added).

That research services can be procured by grant is evident from Part I of Section IV of the Armed Services Procurement Regulations entitled "Procurment of Research and Development." Under Section 4-101, research is defined as follows:

> "(1) *Research*—includes all effort directed toward increased knowledge of natural phenomena and environment and efforts directed toward the solution of problems in the physical, behavioral and social sciences that have no clear direct military application. It would, thus, by definition, include all basic research and, in addition, that applied research directed toward the expansion of knowledge in various scientific areas. It does not include efforts directed to prove the feasibility of solutions of problems of immediate military importance or time-oriented investigations and developments."

Section 4-108 of the ASPR relates to "Grants for Basic Research." There is even a Defense Procurement Circular of March 31, 1965, listing under Item I, "Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Educational Institutions."

Another point that appellant has overlooked in the relationship of OSU with the NSF is that the *grant instruments* between the NSF and OSU *were* in substance *contracts* or *agreements*. In the Decision of the Comptroller General at 42 Comp. Gen. 289 (B-149441), the Comptroller General stated at page 294:

> ". . . The *acceptance* of the grant creates a *contract* between the United States and the grantee under which the moneys paid over to the grantee, while assets in the hands of the grantee, are charged with the obligation to be used for the purposes and subject to the conditions of the grant." (Emphasis added).

It is further clear from DX 60 "Grants for Scientific Research" that DX 10, the grant instrument for the conversion of the YAQUINA, was a *binding agreement* between OSU and the Federal Government. DX 10 ends with the sentence "Please acknowledge receipt and acceptance of this grant and include a reference to the grant number." The grant paper was obviously accepted by OSU. DX 60 states on page 20:

> "The Foundation research *grant instrument* is a letter signed by the Director. *It contains cer-*

tain conditions which, upon acceptance of the grant, will be *binding* upon the *grantee.*" (Emphasis added).

Clearly, the grant instrument DX 10 is a *binding agreement* between OSU and the Federal Government whereby the Government was assured that the aims for which the grant was made would be carried out, and carried out pursuant to the national oceanographic program initiated, conducted and supervised by the Federal Government. The other research work grant instruments between OSU and NSF were obviously binding agreements pursuant to DX 60.

In summary, even if a contract or agreement for research services, or for the conversion work on the YAQUINA, were desirable or necessary, then clearly the grant instruments between OSU and NSF were contracts or agreement binding between these parties. It follows then that if there is some magic attached to the word "contract" or some magic attached to the word "procurement" in regard to services or equipment being "for the Government", then those requirements are fulfilled in the present suit.

IV

There is no Distinction Between the Use of a Grant Instrument or a Contract by a Federal Agency in Obtaining Research Services, and Both are Equally Binding

At pages 24-27 of its appeal brief, the appellant argues that contracts are for "procurement" while

grant instruments are merely for "financial support" of research work. However, in quoting from page 44 of *The National Science Foundation—A General Review of Its First* 15 *Years,* the appellant did not include the following statement at the bottom of page 44 which completely nullifies the point appellant sought to make:

> "In practice, distinctions between grant and contract instruments by various federal agencies for support of basic research have been lost; both have been adjusted to meet needs."

It is pointed out that until 1958 only three Government agencies, the National Science Foundation, the Department of Agriculture and the Department of Health, Education and Welfare, were authorized to accomplish work by means of grants as well as contracts (Third paragraph, p. 5337, U. S. Code Congressional and Administrative News, 85th Congress, Second Session, Vol. 3). This was changed by Public Law 85-934, an act "To authorize the expenditure of funds through grants for the support of scientific research, and for other purposes."

The full intent of the act is apparent from the first paragraph which states:

> "That the head of each agency of the Federal Government *authorized to enter into contracts for basic scientific research at nonprofit institutions* of higher education, or at nonprofit organizations whose primary purpose is the conduct of scientific research, *is hereby authorized,* where it is deemed to be in furtherance of the

objectives of the agency, *to make grants* to such institutions or organizations for the support of such basic scientific research." (Emphasis added).

House Report No. 2640 (U. S. Code Congressional and Administrative News, 85th Congress, Second Session, Vol. 3) makes clear the reason for this law:

> "It is reported that certain types of research may be accomplished more advantageously by means of contracts, whereas others are better accomplished by grants."

The conclusion of the House Report is as follows:

> "It is the considered judgment of the committee that S. 4039 is a most meritorious measure which will promote the progress of scientific research in the United States. This measure will provide *greater flexibility and economy* in the conduct and administration of such research without authorizing any new projects or activities and without increasing Federal expenditures." (Emphasis added).

Public Law 85-934 was implemented by various Code sections, including Part 272 of Title 32 of the Code of Federal Regulations entitled "Administration and Support of Basic Research by the DOD" (Department of Defense), and Part 273 entitled "Policy on Basic Research Grants and Title to Equipment Purchased Under Grants." 32 C.F.R. 273.4 is particularly pertinent and states:

> "(b) In the past, when the *services* of an educational or other non-profit organization *were*

> *desired*, the Department of Defense was *limited* to the use of a research contract. Public Law 85-934 authorizes grants to these organizations for the purpose of supporting basic research. . .
> "(c) Flexibility in carrying out the responsibility of the Department of Defense under Part 272 of this chapter will be increased through the use of the authority given in Public Law 85-934." (Emphasis added).

32 C.F.R. 273.5 entitled "Policy" sets forth the following guidelines:

> "(a) It is the policy of the Department of Defense to encourage the use of grants (in lieu of contracts) to educational or other nonprofit organizations in support of basic research when it is determined that this action would further the objectives of the Department of Defense.
>
> (1) Determination in favor of a grant in lieu of a contract . . . may depend on, but is not restricted to, the following factors:
>
> (i) *Support of a broad area of science.* It may be desirable for the grantee to carry out investigations in a general area of science rather than to be restricted to the solution of specific problems.
>
> (ii) *Payment.* It may be desirable that the grantee have the greater flexibility provided by the grant form of payment than the contract form offers.
>
> (iii) *Simplicity and economy in execution and administration.* It may be desirable to minimize detailed supervision by the supporting agency, as well as the need for periodic progress reports

> by the investigator. The factor of economy resulting from the elimination of accounting and auditing procedures applicable to research contracts should also be a consideration."

In order to make certain that Department of Defense grants for research were not tied down by the complications of the procurement regulations (ASPR) of the Government which apply to contracts, 32 C.F.R. 273.7, part (a) specifically states that the complexities of such regulations would not apply to a grant.

It is evident from Public Law 85-934 and the above sections of the Code of Federal Regulations that a grant is just as appropriate an instrument for obtaining research services by a federal agency as a contract. A grant instrument merely gives flexibility in administration not inherent in a contract.

V

There is no Merit to Appellant's Implication that There is a Significant Difference between the Specificity and Type of Research OSU Performed for the Navy and the Research it did for the NSF.

The appellant, at the bottom of page 3 of its appeal brief, states:

> "Of the balance, the Navy Department pays 40 per cent and the Atomic Energy Commission pays 10 per cent pursuant to contracts with these agencies for *specific research task orders.* (RT 135-36)." (Emphasis added).

At page 27 of its brief, appellant states:

"The grantee, through the *principal investigator*, is *accorded wide latitude* in pursuing interesting and important lines of inquiry without fear of interference by the Foundation which might inhibit intellectual curiosity and research initiative." (Emphasis added).

These quoted portions clearly imply that the research work done for the Navy and the AEC under contracts were specific, definite and detailed, with no latitude allowed the researcher, while the research work done under the grant instruments with the NSF was general and vague and the researcher allowed wide latitude.

In fact, there is no significant difference between the specificity and type of research work OSU performed under its *grant instruments* with the NSF and that performed under the *contracts* with the Navy, and there is no significant difference in the latitude allowed the researcher.

The work called for by the Navy contracts was in terms just as broad and general as the work called for by the grant instruments. For instance, the specificity of research work done for the Navy is typified by Research and Development Task Order of August 1, 1963, which is part of Navy contract Nonr-1286(10) (DX 14) and which states:

"SECTION A—The Contractor shall furnish the necessary personnel and facilities for and, in accordance with any instructions issued by the Scientific Officer or his authorized representative, shall conduct oceanographic research in the

Oregon inshore and offshore waters. This research shall include, *but not necessarily be limited to* the following:

(a) physical, chemical, and biological properties of the offshore waters and bottom of the continental shelf;

(b) inshore special feature studies;

(c) estuarine and littoral processes;

(d) ocean physics;

(e) air-sea interactions; and

(f) recruitment, training, and support of students in oceanography." (Emphasis added).

No further details than those set forth above were supplied to OSU. It is thus evident from the above recitation that the work to be done for the Navy by contract was not only in general terms, but was "not necessarily to be limited to" the tasks recited. Certainly this shows that "wide latitude in pursuing interesting and important lines of inquiry" (as recited by appellant at the top of page 27 of its appeal brief) is a characteristic of a contract as well as of a grant.

The specificity of the research work required under grant instruments is typified in grant instruments DX 334 through 341, the description of which is set forth below:

Grant Number	*Project Title*
GB 1588 (DX 334)	Seasonal Distribution of Intermediate Oceanic Consumers in Relation to Environment.

GP 2876 (DX 335)	Alkalinity of Sea Water.
GP 3556 (DX 336)	Research on the Foraminiform.
GP 3548 (DX 337)	Research in Air-Sea Energy Exchange.
GP 3582 (DX 338)	Physical - Chemical Properties of Sea Water.
GP 4247 (DX 339)	Oregon Oceanographic Studies.
GP 4642 (DX 340)	Temperature Microstructure at the Ocean Floor.
GP 4649 (DX 341)	Removal of Alkalinity from Sea Water by Clay Minerals.

It is evident that the research work for the NSF was in terms just as specific as for the Navy. It is further pointed out that the *subject* matters of the research called for are in many instances similar. For instance, Navy research project "air-sea interaction" listed near the end of Agreed Fact 10 (CT 99) finds correspondence to Grant No. GP 5156 (DX 345) entitled "Research in Air-Sea Energy Exchange." Also compare the task listed near the end of Agreed Fact 10 (CT 99) "physical, chemical and biological properties of the offshore waters and bottom of the continental shelf" with NSF Grant GP 3852 (DX 338) for "Physical-Chemical Properties of Sea Water." Further similarity is seen in the tasks set out on the middle of page 5 (CT 98) of the pretrial order under Agreed Fact 10 "Temperature Distribution on the continental shelf" and Grant GP 4642 from the National Science Foundation (DX 340) entitled "Temperature Microstructure of the Ocean Floor."

It has been shown above that (1) there is no difference in degree of specificity of the research called for under the Navy contracts and that called for in the NSF grant instruments, and (2) there is no significant difference in the subject matters of the research work called for by these Government agencies. Therefore, since the research work for the Navy is obviously "for the Government," the research work for the NSF is clearly "for the Government."

VI

The Grant Instruments between OSU and the NSF Did Not Establish a Gift of Funds to OSU

Appellant asserts at page 6 of its appeal brief:

> "The grant funds advanced to Oregon State University are a gift or subsidization and lose their identity when received by Oregon State University and comingled with its general funds. Section 1498 does not exempt infringing activity by a grantee."

The grant instruments between OSU and the NSF were clearly *agreements* calling for the conversion of the vessel and the performance of research work for the Federal Government with funds supplied by the Federal Government for such purposes.

That the grant instruments between OSU and the NSF did not provide for the gift of funds to OSU is clear from the decision of the Comptroller General, 42 Comp. Gen. 289 (B-149441) wherein the Comptroller General stated, at page 294:

"It is our view that these *grants-in-aid are not* statutory unconditional grants or *gifts* and may not be so made by administrative action." (Emphasis added)

In the above decision of the Comptroller General, one of the points involved was whether the interest earned on the unused grant-in-aid funds was the Government's or the recipient's. The Comptroller General decided that the interest *was the Government's* because the money was not a gift and that the interest should be accounted for.

In the relationship between OSU and the NSF, it is clear that the funds advanced to OSU by the NSF were *not a gift* and were *still the NSF's funds* because the *interest earned* on these funds *was the Government's.* The grant instrument (DX 10) providing for the conversion of the YAQUINA incorporates by reference the document entitled "Grants for Scientific Research" (DX 60) which itself states at page 24:

"*Interest* earned on funds advanced by the Foundation *shall be submitted* by check payable *to the National Science Foundation.*" (Emphasis added).

Since the interest on the grant funds belonged to the Government, it is clear that such funds were not a gift.

VII

The Lower Court's Decision is Clearly in Accord with Decisional Law and Not at Odds with Ninth Circuit Decisions

At page 23 of appellant's appeal brief, it asserts that the Trial Court's decision "is somewhat at odds with two earlier decisions of the Ninth Circuit, *Systron-Donner Corp.* v. *Palomar Scientific Corp.*, 239 F. Supp. 148, 145 USPQ 56 (N.D. Cal., 1965), and *Consolidated Vacuum Corp.* v. *Machine Dynamics, Inc.*, 230 F. Supp. 70, 141 USPQ 623 (S.D. Cal. 1964)."

Appellant's analysis of these two cases is clearly erroneous. In *Systron-Donner Corp.* v. *Palomar Scientific Corp.*, the accused party made one sale of an accelerometer to the plaintiff and a number of sales to a firm called Micro Gee Products at a time when there was *no relationship* whatsoever between the defendant and the Government, nor between Micro Gee Products and the Government. The Court clearly stated at page 150:

> "The evidence shows that *at the time the order was placed Micro Gee had no government contracts nor any orders from government contractors,* for which these accelerometers might have been used. There is evidence, however, two of these accelerometers were incorporated into accleration tables manufactured by Micro-Gee, and that the tables were eventually shipped by Micro-Gee, *under subsequently obtained government purchase orders* to government installations to become the property of the United States." (Emphasis added).

In referring to the meaning of 28 U.S.C. 1498, the Court stated at page 150:

> "Thus, the purpose of the statute is to free the Government from the obstructions raised by involvement of its contractors and subcontractors in patent litigation—not to give exemption from infringement suit to those who manufacture for other than government end use, i.e., use *without 'authorization or consent' of the Government.*" (Emphasis added).

In the present instance, the grant instrument DX 10, which was a binding agreement between OSU and NSF, was in existence *before* the YAQUINA was ever converted and specifically *contemplated* the conversion of the FS 210 into the YAQUINA, and specifically outlined how this was to be done. The authorization and consent of the Government was clearly present.

In summary, the *Systron-Donner* case merely held that there was no relationship between the Government and defendant at the time the accused sales were made, and that the actions of the defendant were made without the authorization and consent of the Government. Neither of those situations exist in the present case.

The second case cited by the appellant, *Consolidated Vacuum Corp.* v. *Machine Dynamics, Inc.*, merely held that defendant who manufactured and sold testing equipment to Government contractors, who in turn used the equipment to test devices sold

to the Federal Government under contract, could be sued in the District Court because:

> ". . . the Government did not directly authorize to, nor know of their use."

In fact, it is clear that in the *Consolidated* case, the accused party was advertising the equipment for sale in trade journals to the general public.

The holding in the *Consolidated Vacuum* case is aptly summed up by the Court at page 73, left-hand column:

> "The Court finds the manufacture here was not with such consent of the Government—express or implied—as to vest sole jurisdiction in the Court of Claims."

To the contrary, in the present case, the conversion of the FS 210 into the YAQUINA was specifically provided for by a grant agreement (DX 10) between OSU and the Government, with OSU having represented to the Government that the ship was to be used solely for federal research. For instance, see DX 18 where the Navy, in writing to its contractor, OSU, in a letter dated September 3, 1964 states:

> "The Contractor [OSU] states that the YAQUINA will be used *only* for research operations through grants and contracts from *Federal agencies*, primarily the Office of Naval Research and the National Science Foundation." (Emphasis added).

Inasmuch as the NSF had the power to take the vessel YAQUINA away from OSU if in the opinion

of the NSF the vessel was not "used sufficiently and efficiently for research" (DX 10, p. 2), it is obvious that the Federal Government had sufficient control over the vessel in view of the representations made to the Government to assure that Government research would be carried on.

VIII

There is no Merit Whatsoever to the Appellant's Argument that the Trial Court's Opinion is Unclear in Regard to the Dual Requirements of 28 U.S.C. 1498

Appellant, at page 15 of its appeal brief asserts that:

> "It is not clear from the lower court's Opinion whether or not it considered the existence of the authorization and consent as *per se* 'for the Government', and thereby concluded that § 1498 applied."

To the contrary, the Court's Opinion is absolutely clear and definite on the point because it specifically found that there was not only the consent and authorization of the Government to the manufacture and use of the YAQUINA, but that such manufacture and use were "for the Government." The Court stated at page 5 (CT 185) of its Opinion:

> "Plaintiff questions whether the language of § 1498, in requiring that a device be manufactured or used *"for" the Government,* was intended to include within its ambit such research work under Government grants. From an examination of the legislative history and purpose of

that section, this Court concludes that such an interpretation is not only permissible but required." (Emphasis added).

At page 6 (CT 186) the Court stated:

"... (2) the conversion and use of the YAQUINA including the manufacture and use of the stabilization tank . . . were *'for' the Government;* and (3) both the manufacture and use of the stabilization tank were with the *authorization and consent* of the Government." (Emphasis added).

At page 8 (CT 188), the Court stated:

"... the conclusion is inescapable that such manufacture and use were *'for' the U. S. Government.*" (Emphasis added).

"Furthermore, the Court finds that both the manufacture and use of the patented stabilization tank were *with the authorization and consent* of the Government, within the meaning of § 1498." (Emphasis added).

Finally, at page 10 (CT 190) the Court stated:

"The parties have devoted substantial portions of their briefs to the question of whether it is necessary, under § 1498, to show *both manufacture and use for the Government,* or whether a showing of either is sufficient to vest sole jurisdiction in the Court of Claims. Inasmuch as it appears that both manufacture and use were for the Government, this issue need not be resolved."

It is evident from the above quoted material that appellant is trying to erect a straw man and then

knock it down, because it is difficult to see how the Court's Opinion could be clearer on the very point appellant asserts is unclear to appellant.

IX

Appellant's Charges that it Was Deprived of its Property Without Just Compensation and Without Due Process of Law, and its Charges of Unfair Competition and Trademark Infringement are Unfounded

Appellant's fifth cause of action states:

> "Defendants, jointly and severally, are violating and infringing upon plaintiff's constitutional rights and, more particularly, plaintiff's rights under the Fifth and Fourteenth Amendments to the Constitution of the United States of America by depriving plaintiff of its property without just compensation and without due process of law by the *unauthorized use of plaintiff's patent* rights as set out aforesaid in the making and using of the vessel YAQUINA, said patent rights having been secured by plaintiff under Article I, Section 8, Clause 8, of the Constitution of the United States of America." (Emphasis added).

The above cause of action is obviously no more than an attempt to reword the patent infringement charge in different language, but it is clear that 28 U.S.C. 1498 relegates the patentee to suit against the United States in the Court of Claims for "his reasonable and entire compensation" for the use and manufacture of his invention. In other words, whatever injuries appellant may have suffered because of

the use of an invention for the Government, with its authorization and consent, must be redressed in the Court of Claims and not in the District Court. In fact, relief from liability of every kind in regard to patents is well set forth in the case of *Richmond Screw Anchor Company* v. *United States*, 275 U.S. 331 (1928), wherein the Court states, at page 343:

> "The purpose of the amendment was to *relieve the contractor* entirely from *liability of every kind* for the infringement of patents in manufacturing anything for the Government and *to limit the owner of the patent* and his assigns and all claiming through or under him *to suit against the United States in the Court of Claims* for the recovery of his reasonable and entire compensation for such use and manufacture. The word 'entire' emphasizes the exclusive and comprehensive character of the remedy provided. As the Solicitor General says in his brief with respect to the Act, it is more than a waiver of immunity and effects an *assumption of liability* by the Government." (Emphasis added).

In fact, where it is evident that the plaintiff is engaged in unnecessary litigation in the District Court in connection with patents, the courts will assess attorneys' fees against the plaintiff because this will be considered as harassment. In this connection, see *Stelma, Incorporated* v. *Bridge Electronics Co., Inc.*, 300 F.2d 761 (C.A. 3, 1962).

In regard to the sixth cause of action concerning unfair competition and trademark infringement, it is submitted that this cause of action is totally un-

founded. The charge is set forth at CT 25, as follows:

> "That the defendants have, in connection with soliciting funds, made representations that their anti-roll equipment is made by, serviced by or otherwise connected with plaintiff; and more specifically, that the defendants have identified their ship anti-roll equipment as *flume stabilizing tanks* which designation is confusingly similar to plaintiff's well-known trademark FLUME STABILIZATION SYSTEM and is calculated to and/or likely to mis-lead persons or organizations with which the defendants are dealing into believing that the defendants' anti-roll equipment is that of the plaintiff or is serviced by the plaintiff or is in some manner associated with or sponsored by the plaintiff which, in fact, is not true."

The appellees have not "identified" the anti-rolling tanks as "flume stabilizing tanks," but only referred to the tanks once by such terminology in two drawings of amended Proposal II, DX 9. Page 2 of Appendix A shows the varying terminology appellees have applied to the anti-rolling tank at various times during the negotiations and thereafter. Appellees have not made any use of the term "flume stabilizing tanks" after the instance of use in DX 9, referred to above.

In any event appellee OSU's use of "flume stabilizing tanks" was in relation to the accused anti-rolling tank. Thus appellant's remedy, if any, should be in the Court of Claims because 28 U.S.C. 1498 covers the patentee's "entire compensation" in connection with such structure.

Furthermore, the evidence in the case is absolutely clear that the appellees in no way at any time represented that they had any association or connection with the appellant. OSU's contacts were with the Navy, and the NSF, and through naval architect Nickum with McMullen. That the NSF was under no illusion that OSU had any association with McMullen or was taking advantage of McMullen's reputation, whatever that was, is evident from the letter (DX 83a) from John Lyman, Program Director for Oceanography, Earth Sciences Section of the National Science Foundation (dated September 26, 1963) to the Office of the General Counsel of the NSF, in which he referred to the difficulty of incorporating a passive anti-rolling tank system in the YAQUINA in view of the patent position of McMullen. The Navy, through the Bureau of Ships, was certainly under no impression that there was any relationship between McMullen and OSU because in DX 83a it is stated:

> "The BuShips people expressed some consternation over the use of Federal funds by grantees for procuring these systems commercially and indicated that BuShips' counsel would be contacting NSF's counsel on the matter next week."

DX 7, the license from the Navy to OSU, additionally shows that the Navy was under no false impression about the relationship between OSU and McMullen, because the very purpose of the license was to give OSU the right to utilize the passive anti-rolling tank patented by McMullen. McMullen's own correspondence with the Navy, including the letter of

January 27, 1965 (DX 574) complaining about the license the Navy had granted to OSU clearly shows that the Bureau of Ships was in no doubt of the relationship between OSU and appellant. It is clear then that all parties involved in the construction and conversion of the YAQUINA and its use knew at all times exactly the relationship between OSU and McMullen, and OSU at no time represented it had any relationship with McMullen. Certainly OSU was not in the business of selling anti-roll tanks, and the only anti-roll tank it ever had anything to do with was the one installed on the YAQUINA.

The sum total and substance of appellant's complaint is that at on one occasion the term "flume stabilizing tanks" was employed, and that since appellant had obtained a trademark registration on "Flume Stabilization System", there must have been some attempt on the part of OSU to trade on the trademark protection of McMullen. This is obviously not so.

It is further pointed out that the charge in the sixth cause of action quoted above is in connection with "soliciting funds." At least insofar as the shipbuilding firm, appellee Albina, is concerned, it had nothing whatsoever to do with soliciting funds but only performed conversion operations.

In summary, appellant's fifth cause of action is no more than a restatement of the patent infringement charge and since 28 U.S.C. 1498 relegates the patentee to the Court of Claims for his reasonable and

entire compensation for any use of his inventions, the fifth cause of action is groundless.

In connection with the sixth cause of action, since all the parties and organizations involved in the present case knew at all times whom they were dealing with there could be no confusion or likelihood of confusion which could support appellant's charge of unfair competition and trademark infringement.

CONCLUSION

The actions of the appellees complained of in the present suit were clearly for the Government with its consent and authorization. The Federal Government can obviously *contract* for research services vital to the national defense and general welfare and just as obviously should be able to have the same services performed by *grant instrument.* In fact, had the legal instruments between OSU and the National Science Foundation been labeled "contracts" instead of "grants" or "grant instruments", it would never have occurred to appellant to sue appellees in the district court. Appellant jumped to the erroneous conclusion that a grant was an outright gift and that a grant created a different legal relation than a contract.

Appellant's fifth cause of action is a mere restatement of its patent infringement charge and hence appellant must seek its compensation in connection with such charge in the United States Court of Claims. The sixth cause of action is groundless because all

the parties and organizations knew whom they were dealing with and the adverse relation of appellees to appellant. Furthermore, OSU was acting as the agent of the Government in its dealing with others.

The entire case should be dismissed and the appellant should go to the Court of Claims for its just, reasonable and entire compensation as contemplated by 28 U.S.C. 1498.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Joseph B. Sparkman,
Of Attorneys for Appellees.

APPENDIX A

Explanation of Terms and Identification of Organizations

Ships Involved in the Suit:

There is only one ship *directly* involved, and that is the YAQUINA, which before conversion was the FS 210, an Army Air Corps Maintenance and Supply vessel, which was declared surplus and transferred to Oregon State University. The initials FS stand for "Freight & Supply" and the 210 is simply a number designation in a series of FS vessels. It is a 180′ vessel having a steel hull. Other vessels mentioned in the Proposals were a 185′ MSF (fleet mine sweeper); 143′ ATA; 149′ Army Steam Tug (p. 1, DX 9).

Reference is also made to the ACONA, an oceanographic research vessel furnished by the Navy to OSU (RT 35) for oceanographic research until such time as it was replaced by a larger vessel, the YAQUINA. The ACONA was eventually transferred to the University of Alaska (DX 82) in September 1964.

Accused Structure:

The accused structure comprises a "passive" anti-roll tank for the YAQUINA to stabilize the ship so as to lessen the roll caused by heavy seas. "Passive" means a tank in which the internal structure is fixed. The tank contains water that is forced, when the ship tilts, to pass through fixed restrictions

or "flumes" to lessen the extent of roll. The accused structure is referred to by different terminology in various exhibits. To clarify the confusion that otherwise might result, some of the varying terminology is set forth below in connection with certain of the pertinent exhibits.

A. Proposal II to the NSF (DX 8)—February 1, 1962

Page 16 calls for "ANTI-ROLLING TANKS" Attached drawing entitled 180′ Oceanographic Vessel — Inboard Profile, the accused structure is referred to as "flume stabilizer."

B. Amendment of January 15, 1963 to Proposal II (DX 9)

Page 4, under the heading "Hold" — reference is made to "anti-rolling tanks"

Under the sheet labeled "Budget" there is reference to "Stabilizing Tanks including steel"

In drawing 2190-2-3 reference is made to "flume stabilizing tank"

In drawing 2190-2-2 reference is made to "flume stabilizing tank."

C. The Design Data Sheet by the Department of Navy Bureau of Ships (DX 38) refers to the type of tank installed in the YAQUINA as "Passive Anti-Roll Tanks."

D. The supplemental authorization and consent letter of September 26, 1966 (DX 1) in the second paragraph refers to the accused tanks as "anti-roll tanks or devices."

E. In the supplemental authorization and consent

letter of March 15, 1966 from the Department of Navy (DX 2), the first paragraph refers to the accused tank as "the anti-roll tank in the Yaquina."

F. The supplemental authorization and consent letter of May 2, 1966 from the Atomic Energy Commission (DX 3) refers to the "anti-roll tank in the Yaquina."

G. In Change Order 6 (DX 22) to the plans for construction of the YAQUINA at page 2 of the body of the Change Order, item 18 refers to "Fabricate and install movable baffles for flume tank per WCNS Dwg. 3130-S11-3."

H. In the letter from John Lyman, Head Oceanographer Earth Sciences Division, NSF to the Office of General Counsel of the National Science Foundation of September 26, 1963 (DX 83a) reference is made to "the only successful anti-rolling tank system"; and paragraph 2 states that an inquiry was made by Jennings to determine "whether such a tank could be placed" in the ship Oregon State was converting, the YAQUINA.

I. In DX 91a the tank is referred to as "Passive Anti-rolling Tank."

J. In a letter from the Navy of September 16, 1963 to OSU (DX 127) the accused tank is referred to as "an anti-roll tank."

K. In the comments of the Bureau of Ships on the specifications and plans for conversion of the YAQUINA of 12-10-63 (DX 144), page 1 makes reference to "stabilization tank sys-

tem." On page 2, reference is made to "a passive anti-rolling tank system, designed in accordance with Bureau of Ships Design Data Sheet."

Parties and Other Organizations

Appellant: JOHN J. McMULLEN ASSOCIATES, INC., is a corporation duly organized under the laws of the State of New York, and is active in the field of designing ships and structures for ships, including ship stabilization devices or anti-roll tanks. (McMullen is listed as the owner of the four patents in suit, the inventor being Kenneth C. Ripley, who was an employee of the Navy Department at the time he made such inventions, DX 6).

Appellees: STATE BOARD OF HIGHER EDUCATION — a state agency of the State of Oregon created pursuant to Oregon law whose duty it is to control and administer all state supported colleges and universities.

OREGON STATE UNIVERSITY (OSU), while not a party, per se, is one of the institutions falling under control of the State Board and is the organization principally involved in the construction and operation of the vessel YAQUINA.

All of the individual defendants are

members of the STATE BOARD OF HIGHER EDUCATION except (1) defendant JAMES H. JENSEN, who is President of Oregon State University; (2) defendant WAYNE V. BURT, who was Chairman of the Department of Oceanography of Oregon State University; and (3) defendant HOWARD A. LINSE, who is Master of the accused vessel YAQUINA.

ALBINA ENGINE & MACHINE WORKS, INC. is an Oregon corporation active in the ship building business and did the conversion work on the accused vessel YAQUINA.

Miscellaneous organizations:

W. C. NICKUM & SONS—a naval architect firm in Seattle, Washington, designing plans for both government and private ships, and who performed the original design work on the FS 210, and designed the plans for conversion of the FS 210 into the oceanographic vessel YAQUINA.

WOODS HOLE OCEANOGRAPHIC INSTITUTION — A private oceanographic institution having its main base at Woods Hole, Massachusetts.
Jonathan Leiby—naval architect at Woods Hole Inst.

Federal Departments, Agencies and Individuals Involved in the Case:

United States Department of Navy (Navy)

Office of Naval Research (ONR) —a section of the Department of the Navy of the United States established by Act of August 1, 1946, 60 Stat. 779; 10 U.S.C. 5150-5153.

E. P. Bledsoe—Contracting officer of the U. S. Navy (ONR)

Feenan Jennings—Head Oceanographer, Geophysics Branch ONR.

Jack G. Davis — Captain USN, Assistant Chief for Patents.

Bureau of Ships (BuShips)—a section of the Department of the Navy of the United States established by Act of June 20, 1940, 54 Stat. 493; 10 U.S.C. 5131, 5132 and 5145 (and see DX 144).

National Science Foundation (NSF)—A U. S. Government agency created in 1950. 64 Stat. 149; 42 U.S.C. 1861-1979.

John T. Wilson—Deputy Director of the National Science Foundation at the times material to this case.

John Lyman—Was Program Director for oceanography of NSF (referred to in pretrial order at page 9, paragraph 24, CT 102, — author of various letters in evidence, including DX 87). He now is Oceanographic Coordinator, U.S. Department of Interior, Fish & Wildlife Service, Bureau of Commercial Fisheries.

Richard E. Bader—Succeeded Lyman as Program Director for oceanography Earth-Sciences Section NSF.

Maritime Administration (Marad) A section of the Department of Commerce of the United States, and referred to in DX 595.

Bureau of Commercial Fisheries—A section of the Department of Interior of the United States and Referred to in DX 89.

Federal Council of Sciences and Technology (referred to at paragraph 46, page 26 of the pretrial order, CT 119) a federal agency created by Executive Order 10807 of March 13, 1959.

Interagency Committee on Oceanography (ICO)—a committee established by the Federal Council of Science and Technology pursuant to section 4 of Executive Order 10807 of March 13, 1959, to develop annually a national oceanographic program, referred to in paragraph 46, p. 26 of the pretrial order CT 119 and DX 49, 50, 51 and 52.

APPENDIX B

Resume of Negotiations Between OSU and NSF for a Larger Ship Containing Anti-Rolling Tanks and the Government's Knowledge, Consent and Authorization in Connection Therewith.

The following material clearly shows the full extent of the Government's knowledge of the YAQUINA negotiations and the Government's consent and authorization to the manufacture and use of the YAQUINA and its anti-roll tank, and the Government's assistance and acquiescence in regard thereto.

In February 1962, OSU submitted two Proposals, labeled Proposal I (DX 103) and Proposal II (DX 8) to the NSF. Proposal I contemplated the construction of a new vessel and also contemplated stabilization anti-roll tanks of the passive type, as recited at page 16 of DX 103, as follows:

> "Anti-Rolling Tanks—Passive anti-roll tanks will be specified. Flume type tanks developed initially for the Navy Department and now controlled under patents by J. J. McMullen Associates, Inc., of New York City will be called for. The specifications will require the contractor to install these tanks and to guarantee a reduction in roll. The exact reduction to be specified will be developed within the detail specifications."

Proposal II contemplated the conversion of a 185′ MSF hull with passive stabilization anti-rolling tanks of the same type as was in Proposal I, as is evi-

dent from page 16 of DX 8, the paragraph entitled "Anti-Rolling Tanks" and the fourth sheet of drawings, wherein the anti-rolling tank is referred to as "Flume Stabilizer." The detailed construction of the anti-roll stabilization tank was not disclosed in either Proposals I or II in their original forms. Neither Proposals I nor II was accepted (RT 39) as presented. In fact, the NSF requested Proposal I be dropped (RT 39, DX 429).

On October 24, 1962, OSU amended (DX 105) Proposal II to call for the conversion of a 149′ steam tug. Reference was made on page 3 to the anti-roll tank as follows:

> "Anti-rolling tanks will be aft of the officer's quarters and will be built into the top portion of the fuel tanks."

During November 1962, OSU was informed that Proposal II as amended had been recommended for funding by the National Science Foundation (DX 85, RT 42). Subsequently, OSU discovered that the last 149′ steam tug which was in good condition had been disposed of (see paragraph 2 of DX 85) but surveyed four FS* hulls in the 176-180′ class and found one of the hulls, the FS 210** was in excellent condition. (Third paragraph of DX 85). Thus OSU determined that Proposal II should be amended again in regard to the vessel to be converted and on January 15, 1963,

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* The initials "FS" mean "Freight & Supply"

** The number 210 identifies the particular FS vessel from other FS vessels.

Proposal II was formally amended (DX 9) to call for the conversion of an FS hull, and particularly the FS 210. Proposal II in its twice amended form was submitted to the NSF, such proposal continuing its reference to anti-roll tanks (see page 4, DX 9, first paragraph, and on the "Budget" page, the item designated "Stabilizing tanks including steel", and two of the drawings attached to Proposal II, namely, 2190-2-2 showing a space for "flume stabilization tanks" and drawing 2190-2-3 showing space for "flume stabilization tanks").

Continued reference to the anti-rolling tanks appeared in OSU's Dr. Burt's letter of January 8, 1963 (DX 85) to NSF's John Lyman (note reference to "anti-rolling tanks" at page 2, third paragraph from the bottom).

In the preparation of Proposal II, OSU made use of the services of W. C. Nickum & Sons, naval architects in Seattle, Washington. Through this organization OSU's Dr. Burt approached appellant in mid 1963 to determine its price for a license under the Ripley patent 3,054,373. Appellant quoted a price of $24,500 (DX 461) which price was apparently to include some design services in addition to a royalty. Dr. Burt determined that he could not meet this price out of the funds supplied by the NSF (RT 58, 82 and 83). Besides, the Department of the Navy itself objected strongly to OSU attempting to use Government funds for a license under the Ripley patent 3,054,373 (RT 82, DX 83a) because Ripley was an employee

of the Navy at the time he invented the subject matter of the patent (DX 6 and 7), and the Navy retained a free license under the patent with the right to grant sublicenses to others "for all governmental purposes" (DX 6). In fact, the Navy had incorporated the design features of U. S. Patent 3,054,373 in a Navy document entitled "Design Data Sheet," Department of Navy Bureau of Ships (DX 38), which bore the notation: "The U.S. Government is licensed under U.S. Patent 3,054,373 to use patented structure for all Governmental purposes."

The Navy thought that procurement of anti-rolling tanks could be accomplished without difficulties with appellant if it cooperated with OSU in the design of the anti-roll tank, and in a letter to OSU dated September 16, 1963 (DX 127) the Navy stated:

> "After failing to contact you several times by telephone I am writing this letter to inform you that the Bureau of Ships is willing to cooperate in the design of anti-roll tanks for your new research ship.
>
> This cooperation will consist of:
>
> 1) a review of your plans to select a suitable location for the tanks so that you will be able to inform the naval architect;
>
> 2) supplying the necessary data sheet to John Leiby so that he can design the tanks;
>
> 3) a review of his plans and the issuance of these plans by the Bureau of Ships for your use.
>
> I presume that these arrangements will satisfy your needs. If you will let me know when you want to bring the plans to Washington, I will set

up the necessary meeting with the Bureau people."

Mr. Leiby was a naval architect employed by Woods Hole Institute, and the arrangement was that the Navy would issue a contract to Woods Hole Institute for the design of the anti-rolling tank for the YAQUINA (RT 143, DX 397). The NSF was clearly aware of these plans as is evident from the letter of September 26, 1963 (DX 83a) from John Lyman of NSF to the Office of General Counsel of NSF. In this letter, Lyman stated:

> "Today Mr. Jennings of ONR, Code 416, called to say he had been visiting BuShips with Dr. Burt of Oregon State, one of our grantees for conversion, to determine whether such a tank system could be placed on his vessel. The upshot was that ONR will have Jonathan Leiby, the Woods Hole naval architect, draw the plans for use by Burt."

The arrangement with Leiby fell through because of the delay in the design work by Mr. Leiby (RT 69 and 142 and DX 138 and PX 1049). However, since the Government had rights in the Ripley patent 3,054,373, the Navy proceeded to issue a license (DX 7) to OSU to enable it to make use of the Ripley patent 3,054,373, in spite of appellant's efforts to prevent this, such preventive efforts being evident from Admiral J. A. Brown's letter of December 24, 1963 (DX 381). The Navy did not try to withdraw the license in spite of appellant's violent protests (DX 574) to the Navy because of issuance of the license.

The Navy was aware of a possible infringing situation in regard to appellant's patents because appellant's letter (DX 574) stated:

> "Under the circumstances, I must arrive at the conclusion that the Bureau of Ships is encouraging and inducing others to infringe upon our patent position."

Later on, after the grant had been issued, the plans for the YAQUINA were submitted to the Bureau of Ships, the Maritime Administration and the Bureau of Commercial Fisheries in accordance with the requirements of DX 87, second paragraph. The Bureau of Ships commented (DX 144, at part 3, entitled "Stabilization Tank System" at the lower part of page 1 and the top part of page 2) as follows:

> "3. *Stabilization Tank System*
>
> Specifications, pages I-5, 48-3, 48-6 and applicable plans. The designation 'Flume' is a proprietary term and should not be used in these specifications and plans. 'Anti-roll' is a more general term and should be used instead. Page I-5, lines 7-8 should be deleted and the following substituted:
>
> > 'A passive anti-roll tank system, designed in accordance with Bureau of Ships Design Data Sheet DDS-9290-4 will be installed between frames 39 and 41.' "

The Bureau of Ships Design Data Sheet DDS-9290-4 is exhibit DX 38.

It is clear from the above material that from the very beginning of the arrangements for furnishing

OSU with a larger vessel, OSU at all times openly disclosed to the Government the plans for the use and construction of an anti-rolling tank of the passive type, and particularly one related to appellant's patents.

The Federal Government Had Knowledge of and Consented to the Use of the Yaquina's Anti-Roll Tank and to its Construction

It is pointed out that knowledge may be imparted to the Government, and its consent given, in many ways. In *Bereslavsky* v. *Esso Standard Oil*, 175 F.2d 148 (C.A. 4, 1949), the court cited with approval the Judge Advocate General's opinion of February 8, 1943 to the effect that:

> " 'Authorization of consent' on the part of the Government may be given in many ways other than by letter or other direct form of communication. * * * the specifications and the contract may be silent with respect to the use of patented inventions. In such event, *if the invention for which claim is made is incorporated in the articles delivered to the United States under the terms of the contract, the acceptance of such articles as complying with the terms of the contract, constitutes 'consent' by the Government* sufficient to bring the articles within the provisions of the Act of June 25, 1910, as amended, supra, and forms the basis for the transfer of jurisdiction over any claim for compensation therefor from the District Court to the Court of Claims, * * *." (Italics appear in original).

The National Science Foundation was aware al-

most from the first that an infringement charge by appellant was possible in connection with the Yaquina's anti-roll tank, as is evident from DX 83a, which is a letter dated September 26, 1963 from John Lyman of the National Science Foundation to the Office of General Counsel of the National Science Foundation.

In the present case the use by Oregon State University of the anti-roll tanks was known and consented to by the Government through the Department of the Navy (RT 67, 68). DX 7, the license from the Government to Oregon State University, recites that the Government is aware that "Oregon State University is procuring the construction of a ship, which ship may incorporate said invention." The "said invention" is previously identified in DX 7 as appellant's U.S. Letters Patent 3,054,373. DX 7 goes on to recite.

> "Whereas Oregon State University is presently and may hereafter be engaged in the conduct of *research for* or in behalf of the Government and the *Government desires* that the ship be used in the conduct of such research. . . ." (Emphasis added).

The Government then issued the license to appellant's patent in question.

DX 7 conclusively shows *knowledge* on the part of the Government that Oregon State University contemplated the incorporation in the Yaquina of an anti-roll tank that might infringe the cited appel-

lant's patent and shows that the Government consented and authorized such use and manufacture by way of the license, DX 7.

The Government was further aware of appellant's position in regard to the anti-roll tank in the Yaquina by Appellant's correspondence with the Department of Navy which commenced on December 24, 1963 in a letter by the Navy to McMullen confirming McMullen's visit to the Bureau of Ships (DX 381) and was carried on for some time, terminating in a letter of January 27, 1965 (DX 574) from McMullen.

It is specifically pointed out that Change Order 6 (DX 22) relating to the construction of the anti-roll tank in the Yaquina was sent to the Government and approved by the Government. Agreed Fact 31 (CT 103) states:

> "On August 28, 1964, the National Science Foundation authorized the expenditure for Change Order 1-6 in a letter to Dr. Burt from Richard G. Bader, Program Director for Oceanography Earth Sciences Section, National Science Foundation."

Burt also testified that the Government was aware of the import of Change Order 6, and Rittenhouse's letter of August 26, 1964 to Dr. Burt when Burt was at the National Science Foundation (DX 218) specifically requested that Burt find out whether the National Science Foundation had any objection to the incorporation in the Yaquina of the anti-roll tank in view of the expected difficulties with the plaintiff. Burt so inquired and found no objection (RT 93, 94).

The various agencies of the Federal Government bent over backwards to assist in the installation of the accused anti-roll tank in the Yaquina. Agreed Fact 21 (CT 101, 102) states:

> "On September 16, 1963, Feenan Jennings of the Office of Naval Research informed Dr. Burt, in a letter, that the Navy would cooperate in the design of the anti-roll tank to the extent of reviewing the plans as to location of the tanks in the ship, submitting the necessary data sheets to John Leiby, naval architect of Woods Hole Oceanographic Institution, to enable him to design the tanks, and lastly, review Leiby's plans and issue the plans through the Bureau of Ships."

This letter of September 16, 1963 (DX 127) clearly shows knowledge on the part of the Navy of the infringement possibilities in question and shows the cooperative attitude of the Navy in regard to the matter. Dr. Burt testified (RT 63) that the "data sheets" referred to in the Jennings letter of September 16, 1963 were the Bureau of Ships Design Data Sheet (DX 38) and these data sheets specifically *refer to appellant's patent* 3,054,373, and thus it is clear that the Navy had in mind assistance in the conversion and use of an anti-roll tank of the general type in appellant's patent 3,054,373.

That the Navy was aware in 1963 of the appellant's position in regard to the anti-roll tank of the Yaquina is further evident from the letter of December 24, 1963 from the Navy to McMullen concerning such anti-roll tank (DX 381). Yet the Navy contin-

ued its cooperation with OSU and the NSF in making possible the construction and use of the Yaquina's anti-rolling tank.

The Navy thereafter not only issued a license under appellant's patent (DX 7) but later on went so far as to amend Navy Contract Nonr-1286(10) (DX 14) on May 9, 1966 to provide for the payment of appellee OSU's attorneys' fees in the present suit.

The Government's Issuance of the Authorization and Consent Papers, Defendants' Exhibits 1, 2 and 3, Is Sufficient Alone to Dispose of the Case.

DX 1, 2 and 3 are specific authorization and consent papers issued by the United States agencies, DX 1 being from the National Science Foundation and dated September 26, 1966; DX 2 being from the Department of Navy, dated March 15, 1966; and DX 3 being from the United States Atomic Energy Commission, and dated May 2, 1966.

It is pointed out that these papers are an *assumption of liability* on the part of the Government in the present case. They are an admission by the Government and binding on it because the Government, by issuing these papers, holds itself out as being liable in the Court of Claims for *any* and *all* infringement that may have occurred in connection with the anti-roll tanks on the Yaquina. While these authorization and consent papers were formally issued after the present suit was brought, it is clear that there are references in the papers to *prior knowledge* of the

Government regarding the Yaquina's anti-roll tank manufacture and use. For instance, in DX 1, the letter states:

> "According to the Foundation records, the facts of the situation are as follows:
>
> In furtherance of the national oceanographic program, the motor vessel YAQUINA was extensively modified under grant from the National Science Foundation to fit it for use as an oceanographic research vessel. In the process of this modification, *certain anti-roll tanks* or devices were installed with the *knowledge, authorization, and consent of the National Science Foundation.* This letter is to *confirm* that such authorization and consent was given with the knowledge on the part of the staff that the anti-roll devices installed were *covered by one or more United States patents.*" (Emphasis added).

DX 2 (the Navy authorization and consent letter of March 15, 1966) only *supplemented* the authorization and consent *already given* in contract Nonr-1286(00) (DX 4). This authorization and consent first appeared by way of amendment of August 5, 1955, clause 46, entitled "authorization and consent" which stated:

> "The Government hereby gives its authorization and consent for *all use and manufacture* of any patented invention in the performance of this contract or any part hereof, or any amendment hereto, or any subcontract hereunder (including any lower tier subcontract)" (Emphasis added).

This authorization and consent paragraph continued

in the contract from that time on and is still in the contract (Agreed Fact 13, CT 100).

Returning again to DX 2, this paper indicates that it is to supplement the authorization and consent already given "assuring you that you will be able to continue the *use* of the vessel YAQUINA in performing oceanographic research work for the Office of Naval Research," (emphasis added) and further on states that the "Office of Naval Research specifically authorizes and consents to your *past, present* and *future use* of the anti-roll tank now incorporated in the YAQUINA whether or not such anti-roll tank may infringe, or may have infringed, *any patent* upon which the plaintiff claims patent infringement in Civil Action No. 65-261. . . ." (emphasis added). DX 2 also states that the "Authorization and consent has been and is given for the purpose of invoking the provisions of 28 U.S.C. 1498."

DX 3, the authorization and consent paper from the Atomic Energy Commission, is similar to DX 1 and 2 in authorizing and consenting to the past, present and future use of the Yaquina and its anti-roll tank.

In summary, the National Science Foundation authorization and consent paper (DX 1) is specifically an *admission* by the United States Government against its interest, making the United States assume liability in the Court of Claims for the manufacture and use of the Yaquina's anti-rolling tank. The statement by the National Science Foundation that it had

knowledge and consented to the manufacture of the Yaquina's anti-rolling tank and to its use, even though it was aware of appellant's patents, leaves no doubt that the Government had knowledge of the manufacture and use of the anti-roll tank from the initial stages on.

28 U.S.C. 1498 is an Eminent Domain Act and thus it is Immaterial When the Authorization or Consent of the Government is Given.

28 U.S.C. 1498 is an *eminent domain act.* Thus the Government makes an assumption of liability for any infringement that has occurred when 28 U.S.C. 1498 is invoked. Therefore, it is *immaterial when* the authorization and consent of the Government is given, although in the present case it is pointed out that the Government had consented to the manufacture of the Yaquina's anti-rolling tank and its use *before* the issuance of DX 1, 2 and 3. Nevertheless, even if this prior consent had not existed, DX 1, 2 and 3 *alone* would be sufficient to dispose of the present case because they are effective *whenever* they are granted as an eminent domain taking by the United States Government.

That 28 U.S.C. 1498 is an eminent domain statute is clear from the case of *The Irving Air Chute Co., Inc.* v. *United States*, 93 F. Supp. 633 (C. Cls., 1950). In this case the plaintiff sued the Government in the Court of Claims because of patent infringement, and the court said:

"The Government urges, *rightly*, that 28 U.

S.C. 1498 is in effect, an *eminent domain statute* which entitles the government to manufacture or use a patented article becoming liable to pay compensation to the owner of the patent . . ." (emphasis added).

* * * * *

"The eminent domain theory of the statute is supported by expressions of the Supreme Court of the United States. See Crozier v. Krupp, 224 U.S. 290; Waite v. United States, 282 U.S. 508."

Reference is also made to *Richmond Screw Anchor Co.* v. *United States,* 275 U.S. 331 (1928), wherein the court had before it a matter concerning a case where the assignee of a patent sought to bring suit against the Government in connection with infringement of the patent by Government contractors during a short period after the passage of the Act of July 1, 1918. At page 345, the court explained the purpose of Congress in passing the Act of 1918:

"To accomplish this governmental purpose, Congress exercised the power to *take away the right of the owner of the patent to recover from the contractor for infringements.* This is not a case of mere declared immunity of the Government from liability for its own torts. It is an attempt to *take away* from a private citizen his lawful claim for damage to his property by another private person which but for this Act he would have against the private wrongdoer." (Emphasis added).

Reference is further made to the recent opinion of the Comptroller General of the United States No.

B-136916 of September 12, 1966 (reported at 151 USPQ 218) wherein the Comptroller General stated:

> "The courts have recognized section 1498 as constituting in effect an *eminent domain statute*, which vests in the Government the right to use any patent granted by it upon payment of reasonable compensation to the patent holder. Richmond Screw Anchor Co. v. United States, 275 U. S. 331 (1928); Stelma, Incorporated v. Bridge Electronics Co., 300 F.2d 761, 132 USPQ 665 (1962). The act was intended to give patent holders an adequate and effective remedy for infringement of their patents *while saving the Government from having its procurement programs thwarted, delayed or obstructed* pending litigation of patent disputes. Bereslavsky v. Esso Standard Oil Co., 175 F.2d 148, 82 USPQ 334 (1949)." (Emphasis added).

In *Bereslavsky* v. *Standard Oil Co. of New Jersey*, 82 F. Supp. 939, 80 USPQ 353, (D. C. Md., 1949) the argument was made that at the *time of entering into the contract* between the United States and the defendant, there was no authorization or consent to the inclusion in the motor fuel, which was supplied to the Government, of the patented ingredient for which plaintiff sued defendant. The plaintiff argued that since there initially was no authorization or consent, the Government could not thereafter give its authorization and consent. The court, however, stated:

> "If there was any merit in the plaintiff's argument, namely that *intention to condemn* on part of the government is a *prerequisite* to the

> application of the statute, then the plaintiff would have been entitled to obtain an injunction during the war against the defendant, but it is perfectly obvious that an attempt to do so would not have been successful." (Emphasis added).

While retroactivity is not specifically mentioned in the case of *J & G Development Co. v. All-Tronics, Inc.*, 198 F. Supp. 392, 131 USPQ 162 (D.C. N.Y., 1961) 28 U.S.C. 1498 is *given* a retroactive effect because the court held that the *mere sale* of equipment to a Government contractor was sufficient to *bar* suit against either the manufacturer or the Government contractor.

APPENDIX C

Yaquina's Anti-Roll Tank Was Used for the Government with its Knowledge and Consent and This Alone is Sufficient to Dispose of the Case Without Requiring a Finding that the Tank was Manufactured for the Government.

The proof adduced at trial clearly shows that *all* uses of the Yaquina's anti-roll tank were by appellee State Board (through OSU) solely for carrying out important oceanographic work for the United States, pursuant to contracts and grant agreements with Government agencies (RT 97 and DX 28, 573b, 371, 39 and 376). This use was known and consented to by the Federal Government as outlined in Appendix B of this brief.

It is obvious from the above facts that the Yaquina's anti-roll tank was *used for* the Government with its knowledge, consent and authorization. Title 28 U.S.C. Sec. 1498 states that where the *use* of an invention is for the Government, plaintiff's *entire* remedy against all those having any connection with the accused device can only be in the Court of Claims. The Congress, in writing 28 U.S.C. 1498, left out of the first paragraph thereof any mention of who might be excused in connection with the use or manufacture for the Government. This paragraph refers only to the use of an invention and specifies that a patent owner's *entire remedy* is in the Court of Claims. It is thus clear that 28 U.S.C. 1498 is written so that *use alone* is sufficient to effect the dismissal of a case and that appellant has *no remedy* in the United States District Courts against anyone in connection

with the alleged use *or manufacture* of the accused anti-roll tank and appellant's exclusive remedy is in the Court of Claims. *Richmond Screw Anchor Company* v. *United States*, 275 U.S. 331, p. 343.

It is pointed out that there are *no cases* in which *services* have been performed with infringing equipment by a defendant for the Government wherein the court has attempted to apply the "manufactured for" provision to the situation. In *Consolidated Vacuum* v. *Machine Dynamics*, 230 F. Supp. 70, 141 USPQ 623 (D.C. Cal., 1964) the defendants sold shock testing equipment to companies holding Government contracts and subcontracts for the purpose of testing missiles and other devices which were being manufactured by such Government contractors and supplied to the Government. Actually, the matter came before the court on defendants' motion to dismiss the plaintiff's complaint on several grounds, one of which was to the effect that the court lacked jurisdiction to hear the matter because of the protection afforded by 28 U.S.C. 1498. The court held against the defendant because "it appeared that the government did not directly authorize, *consent to*, nor *know of* their use" (that is, the Government did not know of the use of the shock testing equipment by the Government contractors). The court went on to say:

> "The court finds the manufacture here was *not* with such consent of the Government—express or implied—as to vest sole jurisdiction in the Court of Claims." (Emphasis added).

However, the court did not require that the Gov-

ernment have *title* to the equipment, only that the Government *consent* to its manufacture. It is clear that had there been knowledge or consent on the part of the Government to the *use* of the equipment in question, or had the Government had knowledge of the manufacture of the equipment for the intended use, the defendant would have prevailed. In any event, in the present suit, the Government not only *paid* for the Yaquina's anti-rolling tank (RT 95, 96) but *consented* (DX 220, Agreed Fact 31, CT 103) to the manufacture thereof by approval of Change Order 6 (DX 22). Change Order 6 specifically referred to Nickum drawing 3130-S11-3 (DX 591b) which showed the construction of the accused anti-roll tank; thus consent of the Federal Government to the construction of the accused anti-roll tank is clear. It is evident therefore that the facts of the present case would more than fit all the requirements in the Consolidated Vacuum case above discussed.

Wood v. *Atlantic Gulf & Pacific Co.*, 296 F. 718 (5 Cir. 1924) is another case where the defendant was performing services for the Government, specifically dredging services, with infringing equipment. The court merely found that there was no evidence that the Government authorized or consented to, or had knowledge of the use of the patented equipment by the contractor. There was no requirement by the court that the *Government* should have *title* to the equipment used by the defendant.

In *Allgrunn* v. *United States*, 67 C. Cls. 1, (1929)

the question before the Court of Claims was whether the use, in the construction of guns for the Government, of patented tools and a patented method by a Government contractor was "use of the invention *by* the Government" (emphasis added) under the Act of October 6, 1917. It is pointed out that the Act of October 6, 1917 was even more restrictive than the Act of 1910 (as amended by the Act of 1918) in that the latter Act as amended required only that the use be "*by* or *for* the Government" (emphasis added) whereas the Act of 1917 required that the use be "*by* the Government" (emphasis added). The court summarized the case as follows:

> "The plaintiff, however, in addition to the above contention, insists that, as a proposition of law, compensation for use follows from the *use by the contractor* of the patent in suit, with the *knowledge* and *acquiescence* of the Government, and fortifies this contention with the statement that the record shows that the authorized Government officers in charge of the contract *knew* of the use made of the invention, not only acquiesced therein but encouraged its use, recommended to all the contractors that it be used; . . ." (emphasis added).

The court further stated on page 46:

> "The inspectors could not escape knowledge of use; they were present from day to day and observed the process of manufacture."

The court further stated:

> "We found nothing in the record indicating a lack of knowledge or acquiescence in the use

of the invention for the Government by the contractors; in fact no claim of ignorance in this respect is made."

The court went on to find that the use *by the con-ractors* of the rifling method and tools with the ac-quiescence and consent of the Government, was use *y the Government.* Certainly in the present case vhere the *use* of the anti-roll tank on the Yaquina vas with the acquiescence and consent of the Gov-rnment, such use was at least *for* the Government, nd under *Allgrunn* v. *United States,* is use *by* the Government.

APPENDIX D

The Government Had Control Over the Use and Disposition of the Yaquina

Grant agreement (DX 10) states at page 2:

> "a. (1) The grantee shall use the vessel primarily for the conduct of basic scientific research and *if the Foundation shall determine that she is not being used sufficiently and efficiently for research, the grantee will convey her to the U. S. Government or its nominee without further cost* to the Government . . ." (Emphasis added).

At DX 10, page 2, the grant agreement states:

> "(2) The grantee shall *not dispose* of the vessel without the prior approval of the National Science Foundation."

At page 2 of DX 10, paragraph "e", the grant states:

> "During a period of national emergency declared by the President or the Congress, the grantee will, should the cognizant Federal Government executive agency decide that the interests of the national defense require it, *convey to the Government*, title and ownership of the vessel without further cost to the Government. . . ." (Emphasis added).

In the transfer of the hull of the vessel as a Government surplus item to OSU, in accordance with DX 584-590 there are additional restrictions. The second page of DX 588 under Part 19a, paragraph 3, states:

"There shall be a period of restriction which shall expire after such property has been in use for the purpose for which acquired for a period of four years, except that the period of restriction on motor vehicles will expire after a period of two years of such use."

Paragraph 5 states:

"In the event such property is *sold,* traded, leased, loaned, bailed, encumbered or otherwise disposed of *during the period of restriction without prior* approval, the donee, at the option of the department, shall be *liable* to the United States of America for the proceeds of the disposal or for the fair market value of the property at the time of such disposal, as determined by the Department." (Emphasis added.)

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

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JOHN J. MCMULLEN ASSOCIATES, INC., *Appellant,*

v.

STATE BOARD OF HIGHER EDUCATION, ET AL., *Appellees.*

Appeal From the United States District Court for the District of Oregon
Honorable William T. Beeks, District Judge

REPLY BRIEF FOR APPELLANT

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REPLY BRIEF FOR APPELLANT

SUPPLEMENTAL FACTUAL STATEMENT

As emphasized at the outset in appellant's principal brief, there is no dispute as to the facts in this case. However, because of implications in appellees' brief, clarification of certain facts might be helpful.

1. Design and Installation of Infringing Stabilizing Tank in the YAQUINA Was Without Assistance of Federal Government

The factual circumstances respecting the intention of the Navy Department to contract with Mr. John Leiby of Woods Hole Oceanographic Institute for the design of the infringing tank are set forth in some detail in appellees'

brief. By implication, appellees' brief (pages 74-79) suggests that the design and subsequent installation was carried out through the Navy Department.

Dealings between the Navy Department and Woods Hole took place in the fall of 1963. In December of 1963, responsive to a spcific inquiry by appellant, the United States Navy Department, in the person of Admiral Brown, Assistant Chief of the Bureau of Ships, wrote a letter (PT Order, Agreed Fact 23, CT 102) categorically denying Navy participation and advising appellant that the work being performed by Oregon State University (OSU) concerning the YAQUINA was outside the scope of any Government rights and, therefore, a private job. The record shows that the effect of this letter was to put to rest any plan of the Navy Department to pay for the design.

Following Admiral Brown's letter, both Woods Hole Oceanographic Institute and the Navy Department refused to do the design work (RT 143). Ultimately, a stablizer was prepared by Mr. George Nickum, naval architect with offices in Seattle, Washington, acting under a patent infringement indemnity agreement with OSU (PT Order, Agreed Fact 30, CT 102; RT 142).

2. Appellant's Price Quotation to Appellee

The major portion of the quoted price of $24,500 (Ex. 461) covered (a) design of a passive tank stabilizer suitable for the YAQUINA, (b) contract plans and specification, (c) a full testing program at a model basin, (d) a technical report, (e) supervision of construction at the shipyard, and (f) sea trials, including shipboard instrumentation. The minor portion of the quoted price constituted a royalty for the use of the patented inventions.

A misconception seems to have been created by appellees' brief concerning use by OSU of the grant funds to obtain the professional services of the appellant. No prohibition existed against OSU's using funds for professional services.

The record reflects two prior instances concerning the same subject matter. The Woods Hole Oceanographic Institute, using grant funds, constructed an oceanographic ship, the ATLANTIS, incorporating a passive tank stabilizer according to the subject inventions (RT 145, 147). Following inquiry by appellant, a license royalty was paid to appellant for use of the patented inventions.

In a second instance, Texas A&M obtained an FS hull (now the ALAMINOS) similar to the YAQUINA and converted same with grant funds (RT 145; CT 133, Exs. 1030, 1031, 1032, 1033, 1035). Texas A&M contracted with appellant for the professional services outlined above and paid a royalty for use of the inventions.

3. Reports Given to NSF

The only reports given by OSU to NSF to meet its obligation under the grant have been bound volumes of reprints of scientific articles already published in standard technical periodicals or journals. According to the record, no special reports were prepared for NSF (CT 137, Exs. 1099, 1100, 1101).

4. NSF Grant Was Subject to a Pamphlet Entitled Grants for Scientific Research

The pamphlet entitled *Grants for Scientific Research* stated terms and conditions of the grant and was incorporated by reference into the grant letter itself (CT 139, Ex. 1171). On page 25 of the pamphlet, under the title "Safety Precautions", the following text appears:

> "As National Science Foundation research grants are made to provide financial support to grantees in their research undertakings, the *Foundation cannot assume any liability with respect to accidents, illnesses, or claims arising out of any work undertaken with the assistance of the grant.* The grantee institution is advised to take such steps to insure or protect itself as it may deem desirable." [Emphasis added]

5. Effectiveness of Stabilization System Never Proven

According to the record, the stabilization system was calculated by Mr. Nickum but never tested by Mr. Nickum to determine its efficiency or effectiveness (CT 137, Ex. 1115). On the basis of a blueprint provided by Mr. Nickum, Albina Engine & Machine Works constructed the stabilizer system. When the ship was put into service, the stabilizer system was tried once or twice, but the results, according to Marine Superintendent Rittenhouse, were totally inconclusive, and the decision was made to convert the tank to fresh water storage (CT 138, Ex. 1122).

From the fall of 1964 until late summer 1966, the stabilizer was never utilized as such. During this period, the ship performed its assigned tasks efficiently and effectively. The stabilizer system was activated in August of 1966, according to the testimony of Dr. Burt at the trial (RT 103), but its effectiveness or efficiency never was demonstrated or proven by any evidence introduced at the trial.

ARGUMENT

From the principal briefs, the focal issues in the case can be distilled as follows:

1. There is a material distinction between a Government contract and a Government grant.

2. Grantees' expenditures of NSF grant funds are not "for the Government [United States]" within the meaning of § 1498.

1. There Is a Material Distinction Between a Government Contract and a Government Grant

Appellees argue on page 44 of their brief that no distinction exists between a grant and a contract and that a grant is as much procurement as is a contract.

The position taken by appellees in their brief is totally inconsistent with legislative action by Congress and ig-

nores legal distinctions which intrinsically distinguish a contract from a grant. First and foremost, the grant represents the giving away of property or the conferring of a special right or privilege. *Only Congress, acting under its Constitutional authority, can make a grant.* This principle is well recognized and was heartily endorsed by the Comptroller General of the United States in his opinion to the Secretary of State, reported at 42 Comp. Gen. 289 (B-149441) (1962):

> "There can be no doubt that only the Congress is legally empowered to give away the property or money of the United States, and that when it makes grants of funds to the States and other public or private agencies it has a right to designate the purpose thereof and to surround the grant by such conditions as it chooses to impose. *State of Indiana* v. *Ewing*, 99 F. Supp. 734, cause remanded 195 F.2d 556. * * *" (at page 293)

The *State of Indiana* v. *Ewing* case referred to above was decided in the United States District Court for the District of Columbia by Judge Holtzoff who enunciated the indisputable principle that when the Federal Government makes grants to the states for specified purposes it has the right to surround the grants by such conditions as it chooses to impose. The fact that a grant is surrounded by conditions does not make it any less a grant.

The National Science Foundation Act states in § 1862 that the Foundation is authorized and directed to initiate and support basic scientific research by making contracts or other arrangements. Other arrangements are stated to include grants, loans, and other forms of assistance. Section 1870 states the general authority of the Foundation as including entering into contracts or other arrangements respecting basic scientific research activities and disposing by grant, sale, lease, or loan real or personal property necessary for or resulting from the exercise of authority granted by this Chapter.

The law applicable to grants was announced by the Supreme Court in the decision of *King County* v. *Seattle School District No. 1,* 263 U.S. 361, 68 L.Ed. 339 (1923). In that case, the Court had before it the precise question at bar, what are the limitations and restrictions upon a grantee's use of grant funds. The particular funds, money received from forest reserves, were granted by Act of Congress to the several states to be expended as the state legislatures prescribed for the benefit of the public schools and public roads of the counties in which the forest reserves were situated. For certain years, money granted to King County via the State of Washington was divided approximately 90% for roads and 10% for county schools. The school board charged that the county was obligated by the grant to divide the money equally for the two uses. The Court decided in favor of the county.

The following language from the decision is of significance to the present factual circumstances:

> "When turned over to the state, the money belongs to it absolutely. There is no limitation upon the power of the legislature to prescribe how the expenditures shall be made for the purposes stated, though, by the act of Congress, 'there is a sacred obligation imposed on its public faith.' Cooper v. Roberts, 18 How. 173, 181, 15 L.ed. 338, 341; Alabama v. Schmidt. 232 U.S. 168, 173, 58 L.ed. 555, 558, 34 Sup. Ct. Rep. 301; Mills County v. Burlington & M. River R. Co. 107 U.S. 557, 566, 27 L.ed. 578, 581, 2 Sup. Ct. Rep. 654; Hagar v. Reclamation Dist. 111 U.S. 701, 713, 28 L.ed. 569, 574, 4 Sup. Ct. Rep. 663. * * * The public schools and public roads are provided and maintained by the state or its subdivisions, and the moneys granted by the United States are assets in the hands of the state, to be used for the specified purposes as it deems best. See State ex rel. Moore v. Callvert, 34 Wash. 58, 61, 74 Pac. 1018." (at pages 364-365)

Two opinions of the Comptroller General are of assistance in firming up an understanding of the principle that grant funds when receipted by the grantee lose their

identity as Federal funds, and the grantee is under no obligation or restriction concerning Federal statutes which otherwise apply to the expenditure of Federal funds, such as contract funds. In his unpublished opinion B-145140, dated May 3, 1961, the Comptroller General advised the International Boiler Works Co. of East Stroudsburg, Pennsylvania, that the Federal Government could not act upon its protest concerning specifications covering high temperature water boilers used in P.H.A. Aided Project No. Ill-2-37, Stage III, Chicago, Illinois. The following two quotations from the Comptroller General's opinion reveal the reasons for the Federal Government's nonparticipation in the program, despite origination of the funds with the Federal Government:

> "The report points out that the Federal Government is not a party to the general construction contract between the Chicago Housing Authority and the Gust K. Newburg Construction Company. Our Office has recognized that the low-rent housing program, although assisted by Federal subsidies, is essentially a local program. See our decision B-126528, dated February 17, 1956, a copy of which is enclosed. The Chicago Housing Authority is not an agency of the Federal Government, but is separate and apart and is not subject to Section 3709 of the Revised Statutes, as amended, or other statutes which require advertising for bids.
>
> * * * * * * * * *
>
> "In an analogous situation involving a protest against specifications allegedly favoring one manufacturer for elevators to be used in a hospital project involving Federal assistance funds, we held in decision B-141932, dated May 2, 1960, that it was the duty of the Surgeon General to determine compliance with the regulations imposed by him, and no action by our Office was warranted after the Surgeon General had approved the specifications."

The latter quotation again touches on the proposition that where conditions are attached to a grant, the Federal Government's sole obligation is to determine compliance

with such conditions. The presence of conditions does not destroy the character of the grant, nor transform it into a Government contract.

Perhaps even more pertinent is the decision of the Comptroller General reported at 37 Comp. Gen. 85 (B-132417) (1957) to the Secretary of Agriculture holding that a sales tax can be paid on purchases made with Federally-derived grant funds. Note the following excerpt from the opinion:

> "The first question here is whether the States, in obligating and disbursing the funds granted to them by Congress for cooperative agricultural extension work and experiment station research, stand in such relationship to the Government that purchases by a State become, in legal effect, purchases by the United States. If such a relationship exists or, in other words, if the funds so granted must continue to be regarded as Federal funds until disbursed by the State officials, who in that case would be acting as agents of the United States, then it follows that payment of State sales taxes, the legal incidence of which is on the purchaser, would violate the Constitutional immunity of the United States against State and local taxation.
>
> "The general rule regarding the character and status of such funds is stated in 28 Comp. Gen. 54 as follows:
>
> > '* * * it consistently has been held with respect to Federal funds granted to a State that, when such funds are receipted for by the State, they become State funds and, in the absence of a condition of the grant specifically prescribing to the contrary, are totally divested of their identity as Federal funds and become funds of the State and the expenditure thereof is subject to the laws and regulations applicable to the expenditure of State funds rather than by Federal laws applicable to the expenditure of appropriated moneys by the departments and establishments of the Government.'
>
> "That this rule is applicable to grants for agricultural extension work and for the work carried on by State agricultural experiment stations seems apparent from the language of the controlling statutes.

7 U.S.C. 341-348; 361-389, Supp. IV. *Cf.* 25 Comp. Gen. 868 and 36 Comp. Gen. 84.

"The States, therefore, in disbursing grant funds for purposes within the scope of the grant, may not be considered as 'agents' of the United States; and, except for conditions specified by Congress in the grants, they are subject only to the restrictions imposed by State laws and regulations on the disbursement of other State funds. If a State, under its laws, is required to pay sales taxes on purchases made with funds derived from State revenues, we can see no reasonable basis for holding that such sales taxes may not likewise apply to purchases with funds obtained by the State through a Federal grant, provided the terms of the grant do not expressly prohibit the payment of such taxes." (at pages 86 and 87)

In view of this authority, recipients of grant funds from the National Science Foundation are *not obligated* to follow Title 41 U.S.C. § 5, requiring advertising, competitive bidding, and compliance with the general laws, as implied by appellees. Nor is the grantee subject to supervision by the General Accounting Office or any of the restrictions or limitations stated in Federal statutes, including the Federal Procurement Regulations (Title 41 C.F.R.) and the ASPR Regulations (Title 32 C.F.R., Chap. 1, Subchap. A, Parts 1-30). A Government contractor is subject to all of the foregoing (41 U.S.C., Chap. 4, §§ 251-260, and 10 U.S.C., Chap. 137, §§ 2301-2314).

In contradistinction to what has been stated above with respect to grants and the fact that they must emanate from Congress, contracts occupy an entirely different legal status. The contract is the conventional legal form used by the various agencies of the Federal Government to procure goods and services necessary to carry out their normal functions. As such, the procurement of, or contracting for, goods and services is subject to all Federal statutory requirements, restrictions, limitations, and obligations.

The essence of the distinction between a grant and a contract is perhaps best illustrated by the decision of the Comptroller General reported at 43 Comp. Gen. 697 (B-153348) (1964). This decision was addressed to The Honorable Leland J. Haworth, Director, National Science Foundation, and the specific questions presented for the Comptroller General's decision were: (1) Whether expenditures may be made from NSF research grants supporting research at nonprofit institutions for the purchase, maintenance, or operation of aircraft where required to conduct the reserach for which the grant has been made, or (2) whether the Foundation may reimburse a cost contractor operating a Federally-owned research center for costs incurred by the contractor in obtaining the use of the aircraft necessary to carry out research activities at the center.

The particular Federal statute involved was 5 U.S.C. § 78(b) [now 31 U.S.C. § 638a(b)]:

> "Excepting appropriations for the Military and Naval Establishments, no appropriation shall be available for the purchase, maintenance, or operation of any aircraft unless specific authority for the purchase, maintenance, or operation thereof has been or is provided in such appropriation."

The Comptroller General reached the conclusion that the grantee may buy the aircraft, since the expenditure of grant funds is not subject to the restrictions and limitations imposed by Federal statute:

> "Whether the restriction contained in 5 U.S.C. 78(b), quoted above, applies to expenditures made by a grantee from funds granted by the Foundation for the conduct of basic research, will depend of course on the terms and conditions of the particular grant. It consistently has been held with reference to Federal grant funds that, when such funds are granted to and accepted by the grantee, the expenditure of such funds by the grantee for the purposes and objects for which made are not subject to the

various restrictions and limitations imposed by Federal statute or our decisions with respect to the expenditure, by Federal departments and establishments, of appropriated moneys in the absence of a condition of the grant specifically provided to the contrary. See 36 Comp. Gen. 221, 224 and decisions cited therein.

"Since the funds appropriated for the National Science Foundation are made available for expenses necessary to initiate and support basic scientific research, and since the Foundation is authorized to accomplish this purpose by various methods, including grants, it follows that the rule set forth above with reference to the expenditure of grant funds by the grantee would appear equally applicable to grants made by the Foundation for basic scientific research. Consequently, if expenditures for the purchase, maintenance or operation of aircraft are administratively determined to be required for the effective accomplishment of the purpose or objects for which a research grant is made, no objection will be interposed thereto solely by reason of the restrictive provisions of 5 U.S.C. 78(b), which for the reasons stated here have no application to such research grants. The first question presented is answered accordingly." (at pages 699 and 700)

By the same token, the Comptroller General reached the opposite conclusion with respect to reimbursement of the contractor operating the Federally-owned research center, because the statutory restrictive provisions of 5 U.S.C. § 78(b) applied to him.

2. Grantees' Expenditures of NSF Grant Funds Are Not "for the Government [United States]" Within the Meaning of § 1498

Based on the foregoing, the restrictive provision of § 1498 has no application to NSF research. Once grant funds are receipted by the State, they belong to it absolutely (*King County* v. *Stattle School District No. 1, supra*) subject only to the conditions imposed by the grant (*State of Indiana* v. *Ewing, supra*). No clear statement is found in the subject grant (Exs. 1143, 1144) or in the statutory

authority for it (42 U.S.C. §§ 1862 and 1870) making the restrictions of 28 U.S.C. § 1498 applicable.

Also, a fair construction of § 1498 limits its applicability to Government contracts to procure goods or services to carry out Government functions.

Congress intended by the 1910 Act to give a patentee a remedy where none previously existed, namely, to sue the Federal Government for unauthorized use of his invention. Notwithstanding, however, the patentee had been and continued to be free to proceed against the Government contractor.

Congress intended by the 1918 Act to prevent interference with Government contracts in the light of the needs of wartime procurement (WW I). As a result, the patentee lost his right to proceed against the contractor.

Congress intended by the 1942 Royalty Adjustment Act to narrow the Government's liability under the 1918 Act to only those instances of procurement where it had authorized and consented to use of the patentee's invention. Again, wartime (WW II) had necessitated a change.

Since 1942, no substantial amendment has been made to § 1498. In the meantime, utilization of legislative grants for basic research has become prevalent. As noted in appellees' brief on page 45, before 1958 only three agencies were authorized by Congress to make grants, and one of these, NSF, was created in 1950.

Did Congress, before or after 1958, intend that its legislative grants authorized for basic scientific research be subject to the restriction of 28 U.S.C. § 1498?

The courts have noted often Congress' ability to express itself clearly and unambiguously regarding conditions of a grant. In the absence of such an expression regarding § 1498, one must believe that the restrictions of § 1498, like other Federal statutory provisions, do not apply to legislative grants.

CONCLUSION

If problems exist regarding legislative grants and patentees, then perhaps the time has arrived for Congress to reconsider § 1498 and determine whether amendments are necessary or desirable, but this is a legislative function and should be left where it properly belongs.

Respectfully submitted,

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I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

____

No. 22,227

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

COMMISSIONER OF INTERNAL REVENUE,

Petitioner

v.

HULET P. SMITH and LOMA M. SMITH,

Respondents

ON PETITION FOR REVIEW OF THE DECISION OF THE

TAX COURT OF THE UNITED STATES

BRIEF FOR THE PETITIONER

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OPINION BELOW

The memorandum opinion of the Tax Court (R. 20-25) is not officially reported.

JURISDICTION

This petition for review (R. 27-29) involves federal income taxes for the taxable years 1962 and 1963. On September 27, 1965, the Commissioner of Internal Revenue mailed to the taxpayers a notice asserting deficiencies in those taxes in the aggregate amount of $1,577.54. (R. 6.) Within 90 days thereafter, on November 22, 1965, the taxpayers filed a petition with the Tax Court for a redetermination of those deficiencies under the provisions of Section 6213 of

the Internal Revenue Code of 1954 and for a determination that the taxpayers had overpaid their taxes for those years. (R. 1-12.) The decision of the Tax Court was entered on April 11, 1967. (R. 26.) The case was brought to this Court by a petition for review filed on July 5, 1967 (R. 27-30), within the three-month period prescribed in Section 7483 of the Internal Revenue Code of 1954. Jurisdiction is conferred on this Court by Section 7482 of the Code.

QUESTION PRESENTED

Can homeowners deduct depreciation and maintenance expenses on their house simply because they offer it for sale, move out of it, and into a new house?

STATUTES AND REGULATIONS INVOLVED

The pertinent provisions of the statutes and Regulations are set out in the Appendix, infra.

STATEMENT

The relevant facts, all of which were stipulated (R. 16-19, 21-24), are as follows:

The taxpayers are husband and wife and resided in Pebble Beach, California, during 1962 and 1963, the taxable years involved. For approximately twenty years the taxpayers lived in Arcadia, California. The fair market value of their home in December, 1961, was $80,000, which was somewhat less than its cost basis. (R. 16, 21.)

In 1959, the husband decided to retire from business and move to Pebble Beach, California, a distance of some 400 miles. They purchased land at Pebble Beach and built a substantially larger and more expensive home than their home in Arcadia. (R. 17, 22.)

In the early spring or summer of 1961, the taxpayers offered their home in Arcadia for sale and made continuous efforts to sell that property until the spring of 1964, when it was finally sold for $62,500. In December of 1961, the taxpayers moved from their old home in Arcadia into their new home at Pebble Beach. They did not intend to return to their former Arcadia home and, in fact, they never thereafter re-occupied their former home. (R. 17, 18, 22, 23.)

Upon moving to Pebble Beach, the taxpayers took with them most of the furniture and furnishings of their Arcadia house, including some of the permanent floor carpeting, leaving only the window drapes and part of the floor carpeting. Also, the taxpayers removed a truckload of plants and flowers from the Arcadia property which were installed at their new house. (R. 17, 22-23.)

The taxpayers decided not to retain the property for investment purposes. The anticipated rental would not justify it. Moreover, to rent the house would have prevented the taxpayers from getting their money out of the property quickly by sale. A two or three years lease would have been necessary to induce a tenant to incur the necessary expenditures to make the house habitable, and it would have been difficult to show the property to prospective purchasers during that period. Because of those considerations, the taxpayers did not offer their house for rent. (R. 18, 23.)

The amounts spent by the taxpayers to maintain and repair their old house during 1962 and 1963 ($2,744.21 and $2,640.40) were reasonable and necessary to maintain the property for sale. (R. 18,

23-24.) As of December 31, 1961, their old house had a cost basis of $60,940 and an estimated life of 25 years. (R. 18-19, 24.)

The Tax Court held (R. 25) that during the taxable years the taxpayers held their old house for the production of income within the meaning of Sections 167(a)(2) and 212(2) of the Internal Revenue Code of 1954 and, accordingly, allowed the taxpayers to deduct depreciation and maintenance expenses incurred on that property during those years.[1/]

SPECIFICATION OF ERRORS RELIED UPON

1. The Tax Court erred in holding that the taxpayers' house was property held for the production of income rather than a personal asset.

2. The Tax Court erred in holding that the taxpayers could deduct maintenance and repair expenses on their house under Section 212 (1) during the years at issue.

3. The Tax Court erred in holding that the taxpayers could deduct depreciation on their house under Section 167(a)(2) during the years at issue.

4. The Tax Court erred in entering its decision for the taxpayers.

1/ Taxpayers had listed deductions for the maintenance and repair expenses, but no deductions for depreciation, on their income tax returns. The depreciation deductions were first claimed in their protests of the Commissioner's initial assertion of proposed deficiencies in taxes. (See R. 2, 8.)

SUMMARY OF ARGUMENT

1. The homeowners in this case offered their house for sale while they still resided there. Several months later, their new house, which they had constructed for them, was ready for occupancy. Although the taxpayers had not yet succeeded in selling their old house, they moved into their new house and continued to offer the old house for sale until, at a later date, it was finally sold. These facts do not support treating these taxpayers any differently from a tax standpoint than the typical homeowner who, in the process of changing residences, attempts to sell his old house. That common transaction--the sale of a house by a homeowner--is a personal transaction in connection with which the homeowner can deduct neither expenses, depreciation, nor losses.

The issue in this case is whether these homeowners held their house as investment property rather than as a personal asset. The mere holding of the property only for sale did not convert it from a personal asset to one held for the production of income, for the house was held for sale only to complete a typical personal transaction of homeowners, namely, the changing of residences. In our society, in which the average homeowner may expect to live in several houses during his lifetime, the personal activity of owning a home often includes the eventual sale of one, and the purchase of another, residence.

Here, the taxpayers were not attempting to convert the house into investment property. Instead, like typical homeowners planning to move to a new residence, the taxpayers offered the house for sale

while still living in it. Thus, they were clearly attempting to sell it as a personal--as distinguished from a production-of-income--asset. When they moved into their new residence some months later and continued to offer their old house for sale, their motive had not changed. They continued to offer it for sale simply to effect a personal transaction, the changing of their residence.

Indeed, the evidence affirmatively precludes the existence of any motive to convert the property into investment property. After moving out of the house, the taxpayers did not offer it for rent because the anticipated return would not justify retaining the property for investment purposes. Moreover, the taxpayers did not attempt to convert the property into an attractive investment property in anticipation of a profitable sale. Instead, concerned primarily with changing their residence, they stripped the house and property of certain improvements, and expenditures would have had to be made by a prospective occupant to make the house habitable. Thus, moving out of the house and continuing to hold it for sale thereafter were not steps taken to convert it into investment property or to effect an investment transaction but were simply events that were necessary for the taxpayers to change their residence, a personal transaction.

Congress, recognizing the essentially personal nature of the type of transaction involved here and the frequency of its occurrence, often largely unavoidable, in our mobile society, has provided by statute that no gain shall be recognized upon the sale of

the old residence where the new residence is acquired within a year of the sale. The legislative history of that provision discloses that Congress was aware that the mere holding of a former residence for sale to carry out that type of transaction constituted a use of the property as a residence, in contradistinction to a use of the property for the production of income.

The Tax Court's memorandum opinion does not purport to explain why these homeowners should be treated differently from homeowners generally. Instead of discussing the personal nature of residential property and the question of conversion to an investment purpose, the Tax Court held that Mitchell v. Commissioner, 47 T.C. 120 (1967), involved the "identical issue" as the instant case. To the contrary, in Mitchell the question was whether depreciation deductions could be taken on an old hospital acquired and held, and eventually sold, only as investment property. It did not involve residential property or any other type of a personal asset.

2. Even if this Court holds that taxpayers' house was converted from a personal asset to an investment asset, we contend that the taxpayers are not entitled to depreciation deductions on that house. As is clear from the legislative history of the relevant statutory provision, depreciation deductions for investment property are subject to the same requirements and limitations, aside from the "trade or business" requirement, as are such deductions for business property. It is well settled that when business assets are not held for active use in the business but are held only for sale they are not depreciable. Because Congress intended that comparable treat-

ment be given investment assets, they too should not be depreciable if held only for sale. Moreover, the function of depreciation is to allow taxpayers to offset income generated by an asset with annual deductions reflecting the diminution in value of that asset resulting, at least in part, from its use in producing that income. An asset held solely for sale, on the other hand, generates no periodic income, and any decrease in its value is automatically reflected in the ultimate sales price, without need of depreciation deductions. Finally, allowing depreciation deductions on investment assets held solely for sale is inconsistent with the structure of the depreciation provisions. The difficulty of determining useful life during which taxpayers will hold an asset for sale, the absurdity of figuring salvage value (estimated sales price) which will ordinarily exceed the cost of the asset--these problems illustrate the inappropriateness of permitting depreciation deductions for an asset held only for sale.

ARGUMENT

I

HOMEOWNERS MAY NOT DEDUCT DEPRECIATION OR MAINTENANCE AND REPAIR EXPENSES ON THEIR HOUSE SIMPLY BECAUSE THEY OFFER IT FOR SALE, MOVE OUT OF IT AND INTO A NEW HOUSE

A. Introduction

Throughout the Code, the allowability of deductions (including those claimed here for maintenance, repairs, and depreciation) often depends on whether the activity that gives rise to the expense falls within one of three categories: business, investment, or personal. The determination of the category of a particular activity depends upon the origin and nature of the activity rather than on its consequences. United States v. Gilmore, 372 U.S. 39, 45, 47-48 (1963). The reason for these distinctions are clear. While personal activities and the disposition of personal assets may occasionally result in a profit or gain includible in gross income, more often than not they simply result, as in this case, in expenses and losses which, if allowed as deductions, would reduce income received from other sources. By contrast, deductions for business or investment (production of income) activities are allowed to assure that the tax is imposed on the net, rather than on the gross, income from the profit-motivated activities generating the expenses.

No asset fits more obviously in the personal category than one's own house. For this reason, the ordinary homeowner is not permitted to deduct expenses, depreciation, or loss in connection with his residence. To obtain such deductions, the homeowner must first convert

his home from personal to either business or investment use. In this case, the taxpayers offered their residence for sale while they still lived in it. When their new residence was completed, they moved into it and out of their old residence, which was finally sold some two years later. These actions, we shall show, do not transform a home from a personal to an investment asset so as to permit a homeowner who offers his house for sale in the usual process of changing residences more favorable tax treatment than that accorded the ordinary homeowner who moves from one house to another.

B. Taxpayers may not deduct depreciation or maintenance and repair expenses if incurred in connection with a personal asset or activity as opposed to a business or investment asset or activity

The pertinent provisions of Section 212 of the Internal Revenue Code of 1954 (Appendix, *infra*) allow a deduction for the "ordinary and necessary expenses" incurred "(2) for the management, conservation, or maintenance or property held for the production of income * * *." The depreciation provision, Section 167 (Appendix, *infra*), allows a similar deduction for the exhaustion, wear and tear "(2) of property held for the production of income." As the legislative history of these provisions makes clear, both are subject to the same limitations that apply to the deduction of business expenses and depreciation, which includes the bar contained in Section 262 (Appendix, *infra*) against the deduction of "personal, living, or family expenses."

Prior to the introduction of those provisions by the Revenue Act of 1942, the Supreme Court had made clear that expenses incurred in income-producing activities were not deductible unless the activity constituted a trade or business. In Higgins v. Commissioner, 312 U.S. 212 (1941), the Supreme Court held that a taxpayer could not deduct the expenses of managing his securities because that activity did not constitute a trade or business. See also City Bank Co. v. Helvering, 313 U.S. 121 (1941); United States v. Pyne, 313 U.S. 127 (1941). Congress responded to these decisions by enacting the predecessors of Sections 212 (1) and (2) and 167(a)(2). Revenue Act of 1942, c. 619, 56 Stat. 798. Those amendments were designed to eliminate the requirement that an investment or income-producing activity must rise to the level of a trade or business before ordinary expense or depreciation deductions would be allowable. On the other hand, those amendments were not designed to give more favorable tax treatment to investment activity than to business activity. The Committee Reports state that (H. Rep. No. 2333, 77th Cong., 2d Sess., pp. 74-75 (1942-2 Cum. Bull. 372, 429-430); S. Rep. No. 1631, 77th Cong., 2d Sess., pp. 87-88 (1942-2 Cum. Bull. 504, 570-571))--

> A deduction under this section is subject, except for the requirement of being incurred in connection with a trade or business, to all the restrictions and limitations that apply in the case of the deduction * * * of an expense paid or incurred in carrying on any trade or business.

The relevant restriction or limitation that applies in this case is the bar against deducting personal expenses. Just as there is a personal-business distinction, so there is a personal-investment distinction, for as the Supreme Court held in United States v. Gilmore, 372 U.S. 39, "it is clear that the 'personal * * * or family expenses' restriction of [the predecessor to Section 262] must impose the same limitations upon the reach of [the predecessor to Section 212(1) and (2)]" as it imposes on the reach of Section 162. See also McDonald v. Commissioner, 323 U.S. 57, 62 (1944); Lykes v. United States, 343 U.S. 118, 121-123 (1952); Trust of Bingham v. Commissioner, 325 U.S. 365, 373-374 (1945); Lewis v. Commissioner, 253 F. 2d 821, 825 (C. A. 2d, 1958); Bowers v. Lumpkin, 140 F. 2d 927 (C. A. 4th, 1944), certiorari denied, 322 U.S. 755.

Sections 167(a)(2) and 212(1) and (2) then, are intended to grant deductions only as comprehensive as those granted to taxpayers engaged in trade or businesses by Sections 167(a)(1) and 162(a), for activities and investments dominated by the profit motive (see Hirsch v. Commissioner, 315 F. 2d 731, 736 (C. A. 9th, 1963)), even thoug the frequency and magnitude of such activities and investments are insufficient to constitute the carrying on of a trade or business. The legislative history of these provisions negates any suggestion that they were to obliterate the traditional distinction between profit-motivated activities, on the one hand, and personal transactions, including the disposal of personal assets, on the other hand. Indeed, as the legislative history and subsequent Supreme

Court interpretation of that history shows, Congress intended that there be a personal-investment distinction in Sections 212 (1) and (2) and 167(a)(2), just as there is a personal-business distinction in Sections 162(a) and 167(a)(1).

C. Taxpayers' attempt to sell their home was a personal transaction

The Tax Court mistakedly permitted the taxpayers to deduct the maintenance and repair expenses and depreciation on their old house for the years 1962 and 1963 on the basis that the Tax Court's recent decision for the taxpayer in Mitchell v. Commissioner, 47 T.C. 120 (1966) (R. 24) "involved the identical issue."[2/] In fact, we contend, Mitchell did not involve the identical issue, for the property involved in that case was not the taxpayer's residence but an old hospital which the taxpayer acquired and held only as investment property. In that case, the Tax Court was not required to focus on the distinction between personal and investment activities that is present in this case, for it held that (p. 126) "the evidence is clear and uncontroverted that the petitioner bought the property as an investment." Since the Tax Court was dealing with investment property rather than a personal asset, it was an easy matter to conclude that the holding of such property for sale satisfies the requirement that property be held for the production of income.

2/ The Tax Court also relied on Robinson v. Commissioner, 2 T.C. 305 (1943), on remand from 134 F. 2d 168 (C. A. 3d, 1943) and Briley v. United States, 189 F. Supp. 510, 513, 514 (N.D. Ohio, 1961), reversed on another issue, 298 F. 2d 161 (C. A. 6th, 1962). Because the properties in those cases were held for sale and rent, neither case is dispositive of the issue in this case.

Since this case involves a residence, which is a personal asset, rather than a hospital, which is normally a business or investment asset, Mitchell is not controlling. The issue in this case--whether the taxpayer's house was converted from a personal asset to a business or investment asset--was not even present in Mitchell.

In our view, the legal issue in this case is whether a former residence may be converted from a personal asset into a business or investment asset when a homeowner, who has offered his house for sale, moves out of that house and into his new residence while his former residence is still up for sale. We contend that a residence does not become an investment asset simply because the homeowner, in the process of moving to a new residence, offers his old residence for sale.

The taxpayers in this case, like most homeowners, bought their house for residential purposes. Such personal purposes may include the likelihood of eventual sale. Every homeowner may buy a house with the hope or expectation that its market value will increase over the years and bring him a profit when he sells the house and moves into another. But this expectation, common to all homeowners, does not convert a house from a personal asset into property held for the production of income, for it is well settled that the ordinary homeowner may not deduct maintenance and repair expenses and depreciation on his house from the moment he offers it for sale. When the Tax Court, in prior cases, focused on the nature of a former residence as a personal asset, it consistently held that the house is not converted to property held for the production of income simply because

the taxpayer offers it for sale; accordingly, the Tax Court denied deductions for maintenance expenses and depreciation. Melone v. Commissioner, 45 T.C. 501 (1966); Stutz v. Commissioner, decided June 24, 1965 (P-H Memo T.C., par. 65,166).3/ Neave v. Commissioner, 17 T.C. 1237, 1243 (1952); Coulter v. Commissioner, decided March 23, 1950 (P-H Memo T.C., par. 50,077); see Jones v. Commissioner, 22 T.C. 407, 414 (1954) (dictum), reversed on another issue, 222 F. 2d 891 (C. A. 7th, 1955); Horrmann v. Commissioner, 17 T.C. 903, 907-908 (1951) (dictum); cf. Fagan v. Commissioner, decided January 26, 1950 (P-H Memo T.C., par. 50,017); Newberry v. Commissioner, decided February 27, 1945 (P-H Memo T.C., par. 45,077).4/ See also Section 1.212-1(h) of Treasury Regulations on Income Tax (1954 Code), Appendix, infra.

3/ In the Stutz case, supra, amounts expended while the property was being held for rent were held deductible, but similar expenses incurred while the property was being held only for sale were held not to be deductible.

4/ In the Fagan case, supra, a depreciation deduction was allowed, and in the Newberry case, maintenance expense and depreciation deductions were allowed although the properties there involved were never held for rent, but only for sale. But, in Fagan, the Tax Court specifically found that (p. 35)--

> Neither the petitioner nor her husband ever occupied the Pebble Beach house as a residence and, in fact, never used it al all except for a few weekends * * * in 1930 and 1931, and on one occasion * * * [for ten days]

The house in question was built in 1929 and was offered continuously for sale from 1933 until it was finally sold in 1947. Under those limited circumstances, the Tax Court concluded that there had been a holding for long-term investment purpose.

(continued)

A similar analysis is made in related areas. Section 165(c)(2), for example, allows the deduction of losses incurred in "any transaction entered into for profit."5/ Yet this Court, the Tax Court, and at least two other Courts of Appeals, have denied loss deductions to homeowners who abandon their residence and offer it only for sale on the basis that the mere holding of a former residence for sale, and the sale itself, does not constitute a conversion or appropriation of the property to income-producing purposes. Guffey v. United States, 339 F. 2d 759 (C. A. 9th, 1964); United States v. Kyle, 242 F. 2d 825 (C. A. 4th, 1957); Seletos v. Commissioner, 254 F. 2d 794 (C. A. 8th, 1958); Melone v. Commissioner, 45 T.C., pp. 505-506; Rogers v. Commissioner, decided January 18, 1965 (P-H Memo T.C., par. 65,008); Stutz v. Commissioner, supra; Horrmann v. Commissioner, supra; Grammer v. Commissioner, 12 T.C. 34 (1949); Leslie v. Commissioner, 6 T.C. 488, 493.6/

4/ (continued)
Similarly, in Newberry, supra, p. 287, "The petitioners never used this property for residential purposes nor did they acquire it for such use. * * * they * * * have held it solely for investment."

The Fagan and Newberry cases, then, are distinguishable on their facts from the instant case for essentially the same reason as is Mitchell v. Commissioner, 47 T.C. 120 (1966), discussed supra, in the text (pp. 13-14).

5/ The legislative history of this loss provision parallels the legislative history of Sections 212 (1) and (2) and 167(a)(2). The first modern income tax act permitted the deduction of "necessary" (continued)

6/ Indeed, in some of the cases involving the question of the deductibility of a loss on the sale of a residence, it was held that no loss deduction was available, even though the property was offered, unsuccessfully, for rent while it was being offered for sale (see, e.g., (continued)

In another area, Congress considered whether holding a former residence for sale converts it into an investment asset. Section 1034 provides for the non-recognition of gain upon the sale of property used by the taxpayer as his principal residence to the extent that the sales proceeds are reinvested in another residence within one year before or after the sale date. 7/ Due to the coverage of that section, Congress was squarely faced with the question whether a home became property held for the production of income when it was offered for sale. The Committee Reports on the predecessor to Section 1034

5/ (continued)
business expenses and "losses actually sustained during the year incurred in trade"; expressly made not deductible were "personal, living, or family expenses". Income Tax Act of 1913, Section IIB, c. 16, 38 Stat. 114, 166, 167. That Act was soon interpreted not to permit the deduction of losses incurred in profit-motivated investment dealings which did not constitute an actual "trade" of the taxpayer. Mente v. Eisner, 266 Fed. 161 (C. A. 2d, 1920); T.D. 2090, dated October 14, 1914. And Congress responded by allowing the deduction of losses incurred in "any transaction entered into for profit." Revenue Act of 1916, c. 463, 39 Stat. 756, Sec. 5(a).

The prohibition contained in the Income Tax Act of 1913 against the deduction of personal expenses has been reiterated in every subsequent internal revenue statute. Revenue Act of 1916, c. 463, 39 Stat. 756, Sec. 5(a); Revenue Act of 1918, c. 18, 40 Stat. 1057, Sec. 215(a); Revenue Act of 1921, c. 136, 42 Stat. 227, Sec. 215(a); Revenue Act of 1924, c. 234, 43 Stat. 253, Sec. 215(a)(1); Revenue Act of 1926, c. 27, 44 Stat. 9, Sec. 215(a)(1); Revenue Act of 1928, c. 852, 45 Stat. 791, Sec. 24(a)(1); Revenue Act of 1932, c. 209, 47 Stat. 169, Sec. 24(a)(1); Revenue Act of 1934, c. 277, 48 Stat. 680, Sec. 24(a)(1); Revenue Act of 1938, c. 289, 52 Stat. 477, Sec. 24(a)(1); Internal Revenue Code of 1939, Sec. 24(a)(1); Internal Revenue Code of 1954, Sec. 262.

6/ (continued)
the Rogers, Horrmann, Stutz and Grammer cases supra), whereas, an unsuccessful offer to rent has been considered to be a conversion of
(continued)

7/ Under the 1939 Code, the gain realized upon the sale of a personal residence, measured by the excess of the selling price over the
(continued)

answered that question in the negative by providing that (H. Rep. No. 586, p. 109 (1951-2 Cum. Bull., p. 436); S. Rep. No. 781 (Part 2), p. 32 (1951-2 Cum. Bull., p. 566)), "The term 'residence' is used in contradistinction to property used in the trade or business and property held for the production of income * * *."

6/ (continued)
the property to income-producing purposes for the purposes of the Section 212(2) deduction (Robinson v. Commissioner, 2 T.C. 305 (1943), on remand from 134 F. 2d 168 (C. A. 3d, 1943); Horrmann v. Commissioner, supra, Jones v. Commissioner, supra, Stutz v. Commissioner, supra; cf. Fagan v. Commissioner, supra). In light of the analogous legislative history of Sections 165(c)(2) and 212, any difference in treatment based upon difference in the language of the statutes involved seems somewhat dubious, yet this appears to be the basis for the distinction, which evidently originated with the Tax Court's decision in the Robinson case, supra. Since the purpose of both provisions is essentially the same with respect to the deductions they grant, namely, only to remove the "trade or business" requirement, it would seem that where expenses are deductible as production-of-income expenses, transaction-for-profit losses would also be deductible. See the Grammer case, supra, where the Tax Court implicitly suggests that it was looking more to the evidence indicating that the so-called offer to rent was not really binding on the potential landlord-taxpayer rather than to the requirement of actual rental, in denying the claimed loss deduction.

7/ (continued)
property's adjusted basis, was recognized as capital gain. Section 112(a) of the 1939 Code; see Sections 1001 and 1002 of the 1954 Code. The hardship resulting from the imposition of the tax on that gain was accentuated when the change in residences occurred because of the increase in the size of the taxpayer's family or a change in the taxpayer's employment location, and these cases became particularl numerous during periods of mobilization or reconversion. See H. Rep. No. 586, 82d Cong., 1st Sess., p. 27 (1951-2 Cum. Bull. 357, 377); S. Rep. No. 781, 82d Cong., 1st Sess., pp. 34-35 (1951-2 Cum. Bull. 458, 482). Accordingly, in 1951, Section 112(n) was added to the 1939 Code by Section 318(a), Revenue Act of 1951, c. 521, 65 Stat. 452. Section 112(n) was the predecessor of Section 1034 of the 1954 Code.

Section 1034, then, provides for non-recognition of gain on the sale of a residence only if the property is not held for the production of income. To hold that when a former residence is offered for sale it is, thereby, held for the production of income would be to read Section 1034 out of the Code.8/

That Congress understood that the sale of an old residence and the purchase of a new residence is usually a personal transaction, is also evident from the concern that Congress expressed for taxpayers who might feel compelled, under certain circumstances, to rent out either their old or new residences temporarily in the course of the sale and purchase. The Committee Reports state that (H. Rep. No. 586, supra, p. 109 (1951-2 Cum. Bull., p. 436); S. Rep. No. 781, Part 2, supra, p. 32 (1951-2 Cum. Bull., p. 566)):

> The term "residence" is used in contradistinction to property * * * held for the production of income. Nevertheless, the mere fact that the taxpayer temporarily rents out either the old or the new residence may not, in the light of all of the facts and circumstances in the case, prevent the gain from being not recognized. For example, if the taxpayer purchases his new residence before he sells his old residence, the fact that he rents out the new residence during the period before he vacates the old residence will not prevent the application of this subsection.

8/ Of course, in the instant case, the sale of the old residence probably would not qualify under Section 1034 (had it been sold at a gain) in any event because the new residence was acquired not later than 1961 and the old residence, unoccupied for more than two years, was not sold until 1964, beyond the time limitations of Section 1034. See Stiegler v. Commissioner, decided March 6, 1964 (P-H Memo T.C., par. 64,057); Stolk v. Commissioner, 40 T.C. 345, 346-349, 350-356 (1963), affirmed per curiam, 326 F. 2d 760 (C. A. 2d, 1964); see generally, United States v. Sheahan, 323 F. 2d 383 (C. A. 5th, 1963).

See also H. Rep. No. 586, supra, p. 28 (1951-2 Cum. Bull., p. 377); S. Rep. No. 781, 82d Cong., 1st Sess., p. 28 (1951-2 Cum. Bull. 458, 483). Treasury Regulations on Income Tax (1954 Code), Section 1.1034-1(c)(3)(i). Clearly, Congress did not regard even the temporary rental of an old residence as a conversion of the property to the production of income under Section 1034, so long as rental was merely incidental to the personal sale and purchase of the residences involved.[9/] The absence of any comparable cautionary statement for the mere temporary holding of an old residence for sale is explained by the obvious reason that Congress believed such a holding was so clearly personal in nature as to not warrant special comment.

So far, we have shown that the fact that the taxpayers offered their house for sale does not alone convert it from a personal asset to property held for the production of income. The other relevant factor in this case--the move of the taxpayers from their old residence to their new residence while they continued to offer their old residence for sale--also does not cause a conversion of the property to an investment asset in the circumstances of this case, for the taxpayers vacated their old residence not as a step in holding the house for sale as an investment but, rather, in connection with a change in residence, an entirely personal transaction.

9/ Where the property is thus temporarily rented out, presumably it would be considered to have been converted to the production of income but only for purposes of Sections 167(a)(2) and 212(2) to allow the deduction of depreciation and maintenance expenses so as to reduce the gross rental income received by the expenses incurred to earn it.

Like ordinary homeowners, these taxpayers were residing in their house when they first offered it for sale in the early spring or summer of 1961. They continued to make efforts to sell the property until it was finally sold in the spring of 1964. (R. 23.) But because their new residence, which they had built for them, was ready for occupancy in December of 1961, the taxpayers then moved out of their old house and into their new house. (R. 22.) Obviously, the taxpayers were quite prepared to sell their old house while they still resided in it. That they were unsuccessful in selling their house before their new house was ready for occupancy does not make the transaction any less personal than if they had been successful. During the time the taxpayers were trying to sell their house, the real estate market was declining. In 1961, the taxpayers' cost basis of their property was in excess of $80,000. The fair market value of the house declined from $80,000 in 1961, to $62,500 in 1964. (R. 21, 23.) The taxpayers were moving to a new residence and simply wished (R. 23) "to get their money out of" their former residence just as other taxpayers, desirous of disposing of other personal assets--pleasure boats, automobiles, home appliances--hope to recover at least a portion of their investment in such property. See *Ritter* v. *Commissioner*, decided October 9, 1946 (P-H Memo T.C., par. 46,237, pp. 807, 809-810), affirmed *per curiam*, 163 F. 2d 1019 (C. A. 6th, 1947).

As we have shown, the facts surrounding the taxpayers' move from their old house and their continued attempt to sell it are thoroughly consistent with the usual personal transaction of selling one's home. Furthermore, other facts are inconsistent with a conversion

of the house to an investment asset. After the taxpayers vacated their old house, they did not offer it for rent. Indeed, they agreed that "retention of the property for investment purposes was not justified." (R. 23.) If their intention was to hold it for sale as a profitable investment, they could have been expected to make the property desirable to prospective purchasers by fixing it up and keeping it in an attractive well-maintained state. But these taxpayers did just the contrary. When they moved to their new residence, they stripped the old residence, removing some of the permanent floor covering and (R. 23) "a truckload of plants and flowers." The taxpayers agreed that a tenant, and presumably a purchaser, would have (R. 23) "to make necessary expenditures to make the house habitable."

In our view, the facts in this case present a picture of ordinary homeowners who, due to personal reasons, moved into their new home before they had been able to sell their old house. When a homeowner moves from one residence to another, he hopes to be able to time his sale and purchase simultaneously. But, as this case shows, circumstances may not permit the timing to be quite so precise. But that is no reason, we submit, why the tax treatment of taxpayer A (who moves out of his old house, even though it has not been sold, because his new house is ready) should differ from the tax treatment of taxpayer B (who sells his old house but retains possession until his new house is ready) or taxpayer C (who sells and moves out of his old house before his new house is ready). In

each case, the circumstances in which the taxpayers find themselves are due simply to the vagaries of the personal activity of changing personal residences.

II

NO DEPRECIATION DEDUCTIONS ARE ALLOWABLE ON PROPERTY WHICH IS HELD SOLELY FOR SALE RATHER THAN HELD FOR AN ACTIVE USE SUBJECTING IT TO EXHAUSTION, WEAR AND TEAR WITHIN THE MEANING OF SECTION 167(a)

Even if this Court should disagree with our major contention and hold that taxpayers held their house for sale as an investment activity rather than as a personal activity, it is our position that depreciation deductions on that house would still not be allowable. Whether the depreciation issue in this case is approached from the standpoint of statutory language, legislative purpose, concept, or function, the result is the same--depreciation deductions are not allowable on assets held solely for sale.

Section 167(a) allows "as a depreciation deduction a reasonable allowance" only "for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)" of property which is used in a trade or business or "(2) of property held for the production of income." As we have shown earlier, Congress enacted the predecessor to Section 167(a)(2) to end the discrimination against taxpayers whose profit-making activities did not rise to the level of a trade or business, and thus to allow depreciation on investment property to the same extent it would be allowed on trade or business property. The Committee Reports state that (H. Rep. No. 2333, supra, p. 78)

(1942-2 Cum. Bull. 430); S. Rep. No. 1631, supra, p. 88 (1942-2 Cum. Bull. 571)):

> Subsection (c) [Subsection (d) in the House Report] of this section amends section 23 (l) of the Code so as to allow, in addition to the deduction allowable under the existing law, a deduction for the exhaustion, wear, and tear of property held by the taxpayer for the production of income, whether or not the property in question is used in the trade or business of the taxpayer, including a reasonable allowance for obsolescence. Except for this, the new allowance is subject to the same limitations and restrictions which have been applicable under this section prior to the present amendment.

In a business context, it is clear that depreciation may be taken only on property which is actively used or on property which is being held ready for active use and may not be taken on tangible business property which is held only for sale. Treasury Regulations on Income Tax, Sections 1.167(a)-2 and 1.167(a)-10(b), Appendix, infra; Nulex, Inc. v. Commissioner, 30 T.C. 769 (1958); House v. Commissioner, decided March 9, 1959 (P-H Memo T.C., par. 59,047); Hillcone Steamship Co. v. Commissioner, decided August 21, 1963 (P-H Memo T.C., par. 63,220, p. 1262); New York City Omnibus Corp. v. Commissioner, decided November 30, 1948 (P-H Memo T.C., par. 48,254, p. 815); St. Louis Malleable Casting Co. v. Commissioner, 9 B.T.A. 110, 120 (1927); Camp Wolters Enterprises, Inc. v. Commissioner, 22 T.C. 737, 754-755 (1954), affirmed on another issue, 230 F. 2d 555 (C. A. 5th, 1956); Duval Motor Co. v. Commissioner, 264 F. 2d 548 (C. A. 5th, 1959); see Sears Oil Co. v. Commissioner, 359 F. 2d 191, 198 (C. A. 2d, 1966). But cf. Mitchell v. Commissioner, 47

T.C. 120 (1966); Newberry v. Commissioner, decided February 27, 1945 (P-H Memo T.C., par. 45,077); Fagan v. Commissioner, decided January 26, 1950 (P-H Memo T.C., par. 50,017).

In any investment context, we submit, the rule is the same--depreciation can be taken only on property which is actively used in an investment activity. The legislative history cited above states that depreciation on investment property "is subject to the same limitations and restrictions" which are applicable to business property. As the above case shows, just as all business property is not subject to depreciation deductions, so all investment property is not depreciable; just as a taxpayer who is in the trade or business of renting trucks cannot depreciate a truck which he takes out of business use and holds only for sale, so an investor may not depreciate property which is not used for investment purposes but which is merely held for sale.

The function of depreciation is fundamentally inconsistent with allowing an investor to depreciate property held solely for sale. A depreciation deduction is designed to allow a taxpayer who is engaged in an income-producing activity (whether business or investment) to pay tax only on his net income which, in this context, would be net receipts from his income-producing activity less the decline in value of the assets that produce the income. See Massey Motors v. United States, 364 U.S. 92, 96 (1960); Detroit Edison Co. v. Commissioner, 319 U.S. 98, 101 (1943); United States v. Ludey, 274 U.S. 295, 300-301 (1927); Burnet v. Harmel, 287 U.S. 103, 111-112 (1932). Where an asset is held not for use to produce income

in the current period but is held merely for eventual sale, any decline in value of that asset should not be reflected in the current period, through depreciation deductions, because it is reflected instead when the asset is sold, through a decreased sales price. In other words, when an asset is held only for ultimate sale, gain or loss will be incurred only upon final disposition rather than during the interim period. Hence depreciation, which reflects reduction or loss of value during the interim income-producing period, is not applicable.

The structure of the depreciation deduction section is inconsistent with allowing an investor to depreciate property held solely for sale. The Regulations to Section 167 provide that a depreciation allowance (Treasury Regulations on Income Tax (1954 Code), Section 1.167(a)-1(a)--

> * * * is that amount which should be set aside for the taxable year in accordance with a * * * plan * * * so that the aggregate of the amounts set aside, plus the salvage value, will, at the end of the estimated useful life of the depreciable property, equal the cost or other basis of the property * * *.

See also Section 1.167(g)-1 of the Treasury Regulations on Income Tax (1954 Code). How does one go about determining the "estimated useful life" of an asset held only for sale? It is well established that the useful life of the property to a taxpayer in his business or investment activity and the salvage value at the end of that period are to be used in computing depreciation. Massey Motors v. United States, 364 U.S. 92 (1960); see also Fribourg Nav. Co. v.

Commissioner, 383 U.S. 272 (1966). Here, it would be difficult, indeed, to determine the useful life of the property while held for the taxpayers, allegedly, for investment purposes, for that would require an estimation of how long it would take them to sell the property, and they might have sold it within a few weeks instead of holding it for more than two years.

Assuming that such a useful life could be estimated, comparable difficulties arise in attempting to determine salvage value at the end of the selling period. The Regulations provide that (Treasury Regulations on Income Tax (1954 Code), Sec. 1.167(a)-1(c)):

> Salvage value is the amount (determined at the time of acquisition) which is estimated will be realizable upon sale or other disposition of an asset when it is no longer useful in the taxpayer's trade or business or in the production of his income and is to be retired from service by the taxpayer. (Emphasis supplied.)

Because salvage value, which must be eliminated from the depreciation base of an asset, is defined as an estimate of "the amount * * * realizable upon sale", the typical investment asset which is acquired and held only for appreciation realizable upon sale will have no depreciation base. The sales price or "salvage value" will be estimated to be in excess of the cost (or other basis) of the asset, making a depreciation computation impossible.

The computation used for the asset in this case shows the impropriety of allowing depreciation on an asset held solely for sale. Contrary to the decided cases, the useful life of the asset was not based on an estimate of the period for which the taxpayers

intended to hold and use the asset--the period of time which they estimated would take to sell the asset--but was based on the physical life of the asset itself, 25 years. And the salvage value--an estimate of the amount realizable upon sale--was determined to be zero, even though to no one's surprise the taxpayers sold the property for $62,500. (R. 18-19, 24.)[10]

We recognize that the Tax Court decisions in Mitchell v. Commissioner, Fagan v. Commissioner, and Newberry v. Commissioner, all supra, are in conflict with our position here respecting the depreciation deduction. Cf. Robinson v. Commissioner, supra. Those decisions, we submit, are in error insofar as they held that a depreciation deduction may be taken for tangible properties held only for sale and not for some type of active use by the taxpayer for the production of income subjecting them to "exhaustion, wear and tear." It is evident from the opinions in the Mitchell and Newberry cases, supra, that in those cases the Tax Court erroneously looked to the portions of the 1942 Committee Reports dealing with the definition of income for the purposes of the Section 212 expense deduction to decide that depreciation deductions were allowable under Section 167(a)(2) or its predecessor provision. In those cases, the court overlooked the portion of the Committee Reports quoted, supra, specifically dealing with the depreciation deduction allowed by the predecessor of

10/It is beyond dispute that a stipulation, based on a mistake of law or ultimate fact is not binding on either party. See Commissioner v. Cummings, 77 F. 2d 670, 672 (C. A. 5th, 1935); Seatree v. Commissioner, 25 B.T.A. 396, 401 (1932), affirmed, 72 F. 2d 67 (C. A. D. C., 1934); Commissioner v. Ehrhart, 82 F. 2d 338, 339 (C. A. 5th, 1936); John A. Nelson Co. v. Commissioner, 75 F. 2d 696, 697-698 (C. A. 7th, 1935), (continued)

Section 167(a)(2), which makes it abundantly clear that that provision grants a deduction only in those instances where business property comparably situated would be depreciable. That is not the situation in the instant case.[11/]

CONCLUSION

For the reasons stated above in Part I, the decision of the Tax Court is erroneous in all respects and should be reversed. In the alternative, for the reasons stated in Part II, the decision of the Tax Court is erroneous insofar as it allowed a depreciation deduction and that part of its decision should be reversed.

Respectfully submitted,

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February, 1968.

10/(continued)
affirming 28 B.T.A. 529 (1933), reversed on aother issue, 296 U.S. 374 (1935); Ohio Clover Leaf Dairy Co. v. Commissioner, 8 B.T.A. 1249, 1256 (1927), affirmed per curiam, 34 F. 2d 1022 (C. A. 6th, 1929), certiorari denied, 280 U.S. 588 (1929); McClintock-Trunkey Co. v. Commissioner, 19 T.C. 297, 304 (1952), reversed on another issue, 217 F. 2d 329 (C. A. 9th, 1954).

11/ While the Commissioner acquiesced in the decision in Mitchell (1967-1 Cum. Bull. 2), we have been advised that he is reconsidering that acquiescence, insofar as that case held that property held only for sale is depreciable.

It should be noted that the dictum in May v. Commissioner, 299 F. 2d 725, 727-728 (C. A. 4th, 1962) that certain types of property may be depreciable, even though held only for sale and not in any way being actively used, is based only on the decisions in Fagan and Newberry, supra. Moreover, the dictum in May was not in any way necessary

(continued)

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: _____ day of February, 1968.

____
Attorney

11/ (continued)
to the holding in that case. In May, the Court of Appeals held that a pleasure yacht abandoned for personal use and held for sale was not depreciable under Section 167(a)(2). We suggest that that holding is equally applicable to the facts in the instant case.

APPENDIX

Internal Revenue Code of 1954:

SEC. 167. DEPRECIATION.

(a) General Rule.--There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)--

(1) of property used in the trade or business, or

(2) of property held for the production of income.

* * *

(26 U.S.C., 1964 ed., Sec. 167.)

SEC. 212. EXPENSES FOR PRODUCTION OF INCOME.

In the case of an individual, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year--

(1) for the production or collection of income;

(2) for the management, conservation, or maintenance of property held for the production of income; or

(3) in connection with the determination, collection, or refund of any tax.

(26 U.S.C., 1964 ed., Sec. 212.)

SEC. 262. PERSONAL, LIVING, AND FAMILY EXPENSES.

Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.

(26 U.S.C., 1964 ed., Sec. 262.)

Treasury Regulations on Income Tax (1954 Code):

§ 1.167(a)-1 Depreciation in general.

(a) Reasonable allowance. Section 167(a) provides that a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held by the taxpayer for the production of income shall be allowed as a depreciation deduction. The allowance is that amount which should be set aside for the taxable year in accordance with a reasonably consistent plan (not necessarily at a uniform rate), so that the aggregate of the amounts set aside, plus the salvage value, will, at the end of the estimated useful life of the depreciable property, equal the cost or other basis of the property as provided in section 167(g) and § 1.167(g)-1. An asset shall not be depreciated below a reasonable salvage value under any method of computing depreciation. However, see section 167(f) and § 1.167(f)-1 for rules which permit a reduction in the amount of salvage value to be taken into account for certain personal property acquired after October 16, 1962. See also paragraph (c) of this section for definition of salvage. The allowance shall not reflect amounts representing a mere reduction in market value. See section 179 and § 1.179-1 for a further description of the term "reasonable allowance."

(b) Useful life. For the purpose of section 167 the estimated useful life of an asset is not necessarily the useful life inherent in the asset but is the period over which the asset may reasonably be expected to be useful to the taxpayer in his trade or business or in the production of his income. This period shall be determined by reference to his experience with similar property taking into account present conditions and probably future developments. Some of the factors to be considered in determining this period are (1) wear and tear and decay or decline from natural causes, (2) the normal progress of the art, economic changes, inventions, and current developments within the industry and the taxpayer's trade or business, (3) the climatic and other local conditions peculiar to the taxpayer's trade or business, and (4) the taxpayer's policy as to repairs, renewals, and replacements. Salvage value is not a factor for the purpose of determining useful life. If the taxpayer's experience is inadequate, the general experence in the industry may be used until such time as the taxpayer's own experience forms an adequate basis for making the determination. The estimated remaining useful life may be subject to modification by reasor of conditions known to exist at the end of the taxable year ar shall be redetermined when necessary regardless of the method

of computing depreciation. However, estimated remaining useful life shall be redetermined only when the change in the useful life is significant and there is a clear and convincing basis for the redetermination. For rules covering agreements with respect to useful life, see section 167 (d) and § 1.167 (d)-1.

(c) Salvage. (1) Salvage value is the amount (determined at the time of acquisition) which is estimated will be realizable upon sale or other disposition of an asset when it is no longer useful in the taxpayer's trade or business or in the production of his income and is to be retired from service by the taxpayer. Salvage value shall not be changed at any time after the determination made at the time of acquisition merely because of changes in price levels. However, if there is a redetermination of useful life under the rules of paragraph (b) of this section, salvage value may be redetermined based upon facts known at the time of such redetermination of useful life. Salvage, when reduced by the cost of removal, is referred to as net salvage. The time at which an asset is retired from service may vary according to the policy of the taxpayer. If the taxpayer's policy is to dispose of assets which are still in good operating condition, the salvage value may represent a relatively large proportion of the original basis of the asset. However, if the taxpayer customarily uses an asset until its inherent useful life has been substantially exhausted, salvage value may represent no more than junk value. Salvage value must be taken into account in determining the depreciation deduction either by a reduction of the amount subject to depreciation or by a reduction in the rate of depreciation, but in no event shall an asset (or an account) be depreciated below a reasonable salvage value. * * *

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(26 C.F.R., Sec. 1.167(a)-1.)

§ 1.167(a)-10 <u>When depreciation deduction is allowable</u>.

*   *   *

(b) The period for depreciation of an asset shall begin when the asset is placed in service and shall end when the asset is retired from service. A proportionate part of one year's depreciation is allowable for that part of the first and last year during which the asset was in service. * * *

(26 C.F.R., Sec. 1.167(a)-10.)

§ 1.167(g)-1. <u>Basis for depreciation</u>.

The basis upon which the allowance for depreciation is to be computed with respect to any property shall be the adjusted basis provided in section 1011 for the purpose of determining gain on the sale or other disposition of such property. In the case of property which has not been used in the trade or business or held for the production of income and which is thereafter converted to such use, the fair market value on the date of such conversion, if less than the adjusted basis of the property at that time, is the basis for computing depreciation.

(26 C.F.R., Sec. 1.167(g)-1.)

§ 1.212-1 <u>Nontrade or nonbusiness expenses</u>.

*   *   *

(h) Ordinary and necessary expenses paid or incurred in connection with the management, conservation, or maintenance of property held for use as a residence by the taxpayer are not deductible. However, ordinary and necessary expenses paid or incurred in connection with the management, conservation, or maintenance of property held by the taxpayer as rental property are deductible even though such property was formerly held by the taxpayer for use as a home.

*   *   *

(26 C.F.R., Sec. 1.212-1.)

No. 22,227

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

COMMISSIONER OF INTERNAL REVENUE,

Petitioner,

vs.

HULET P. SMITH and LOMA M. SMITH,

Respondents.

On Petition for Review of the Decision of the Tax Court of the United States.

BRIEF FOR THE RESPONDENTS.

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No. 22,227

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On Petition for Review of the Decision of the Tax Court of the United States.

BRIEF FOR THE RESPONDENTS.

Jurisdiction.

Respondents do not question the jurisdiction of the Court with regard to this Appeal.

Question Presented.

Respondents disagree with Petitioner's statement of the question presented and rephrase it as follows:

Is the owner of a house, which he has permanently abandoned as his home in favor of a new residence elsewhere, to be deprived of deductions for maintenance expenses and depreciation because the owner did not offer the house for rent but only for sale, under the statutory provisions authorizing these deductions in con-

nection with property "held for the production of income"? Secondarily, under the above circumstances, is there any distinction to be drawn which would deprive the owner of the depreciation allowance, even if the maintenance expenses are allowable?

Statutes and Regulations Involved.

The statutes and Regulations involved are those set out by Petitioner in the Appendix in his brief and in addition thereto IRC Sections 165(c); 62(5); and 1034(a), and Regulations Subsections 1.167(b)-0(a); 1.167(b)-1(a); and 1.212-1(b) all set out in the Appendix hereto.

Statement of the Case.

Petitioner, in his "Statement" starting on Page 2 of his brief, paraphrases the Stipulation of Facts with certain variations and omissions. Respondent taxpayers, for their statement of facts, incorporate herein by reference, stipulations 3 through 20 of the Stipulation of Facts starting on Page 16 of the Transcript of the Record, which has been filed herein; and agree that the Tax Court allowed the respondent taxpayers the deductions which are here in issue in connection with the former home of the taxpayers, on the ground that it was held by them for the production of income pursuant to Sections 167(a)(2) and 212(2) of the Internal Revenue Code of 1954. It is respondent taxpayers' position that this decision by the Tax Court was correct.

Summary of Argument.

PART I.

THE CASE FOR THE RESPONDENT TAXPAYERS.

A. The conclusion by the Tax Court that the property in question was held for the production of income during the years in question is a conclusion of fact which this Court will not disturb unless it is "clearly wrong" and not supported by competent evidence.

B. To the extent that an issue of law is involved, the opinion of the Tax Court is to be given substantial respect and weight by this Court because of the special qualifications of the Tax Court in the field of taxation, although it lies within the province of this Court to overrule the Tax Court if this Court is satisfied that the Tax Court applied an erroneous rule of law or misapplied the law to the facts involved.

C. The statutes, authorizing the deductions here in question, are broad in language, and they were intended by Congress as relief statutes so should be liberally interpreted to accomplish the relief which Congress intended, as long as that relief falls within the language used in the statutes involved.

The phrase "held for the production of income" which is used in these statutes, both with regard to the allowance for depreciation and with regard to the allowance of expenses, was intended to equalize the position of taxpayers who merely held property for the production of income, with the position of taxpayers who

were using property actively in a trade or business, and were intended by Congress to be applicable in substantially all cases where income, if realized from such holding, would be taxable. If these taxpayers had sold their former home at a profit, this profit would, of course, have been taxable.

D. The Commissioner's original Regulations undertook to limit expense deductions to cases where the property was rented or otherwise appropriated to income producing purposes by some affirmative act. The Tax Court at one time supported this Regulation, but this language was later withdrawn by Petitioner. No such affirmative act is any longer required by the Regulations or the present ruling cases. Even if the withdrawn language of the Regulations were still in effect, the various actions of these taxpayers, as set out in stipulations 7 through 13 [T. -17], would be ample to meet that requirement.

E. It has been uniformly held that after a taxpayer moves out of a former residence he is entitled to these deductions if he does not intend to reoccupy the property later and offers it for rent. The weight of case authority and the clear language of the statutes and Regulations involved authorizes these allowances where such property is offered for sale, as long as there is clear evidence that the property is no longer held by the taxpayer for any personal, living or family use, even though not offered for rent. It is the taxpayers' position that the offering for rent is merely one item of evidence to be considered by the trial Court (here the Tax Court) in determining the issue of the purpose for which the property was being held and its absence is in no way decisive.

PART II.

DISCUSSION OF PETITIONER'S ARGUMENT.

A. Petitioner seeks to disallow both expenses and depreciation by asserting that expenses incurred in looking after property, which was formerly the taxpayer's home, retain their character as personal expenses because the property was originally the taxpayer's home. This overlooks entirely the distinction clearly drawn in the statutes between property *used* for personal or family purposes and property no longer so used, and which has thus become an asset in the taxpayer's hands, which is solely of economic value to him. Petitioner's claim would as logically apply to a former residence held for rent, as to a former residence held for sale only, so would be entirely contrary to all of the cases cited by the taxpayers in Part I E. hereafter, as well as Petitioner's own position before the Tax Court and in his Petition for Review herein [T. -29].

B. In Part II of his brief, Petitioner seeks to differentiate between the allowance of expenses and the allowance of depreciation on the claim that it was the intention of Congress that depreciation be only allowable where property is actively in use by the taxpayer in an income producing activity, or held for such use, as an offset to receipts from that activity. These taxpayers disagree, as such a concept does violence to the statutory language here involved. The Regulations and cases, to any extent that they may appear to support Petitioner's position, were intended to apply solely to property used in a trade or business, and not to property merely "held" for the production of income. "Held" is a passive word neither implying or requiring any activity beyond what is necessary for the conservation or maintenance of the property.

ARGUMENT.

PART I.

THE CASE ON BEHALF OF THE RESPONDENTS.

A. The Statutory Background and the Findings of the Tax Court.

Prior to the filing of Petitioner's brief in the case at bar, there seems to have been no distinction drawn in any of the cases between the allowance of expenses and the allowance for depreciation; nor, indeed, does the Government seem to have at any time urged upon any Court that there should be such a distinction. The argument in this Part I is, therefore, intended to apply both to the allowance for expenses and the allowance for depreciation.

Internal Revenue Code Section 212(2) states that deductions for expenses are allowable for "the management, conservation or maintenance of property held for the production of income". Section 167(a)(2) allows the deduction of "a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)—(2) of property held for the production of income". It is important to note the identical language used in these two sections in stating that their respective deductions are allowable on "property held for the production of income". Both of these provisions first appear, at the same time, in the Revenue Act of 1942. Prior to 1942, the revenue laws contained provisions for such deductions only in connection with property used in a trade or business. In 1942 Congress decided that the earlier law was too restrictive with re-

gard to such deductions and added the above provisions, retroactively. Revenue Act of 1942, Sec. 121(e). The present subsection 212(2) regarding expenses appeared as subsection *23(a)(2)* of the 1939 Code, and the present subsection 167(a)(2) regarding depreciation appeared as subsection 23(1)(2) of the 1939 Code (both as amended in 1942), both in the same language in each Code, so far as the issues in this case are concerned.

In discussing the allowance for expenses, the 1942 House of Representatives Committee Report, appearing at 1942 C.B., part 2, p. 410, states the following:

> "The existing law allows taxpayer to deduct expenses incurred in connection with a trade or business. Due partly to the inadequacy of the statute and partly to court decisions, nontrade or nonbusiness expenses are not deductible, although nontrade or nonbusiness income is fully subject to tax. The bill corrects this inequity by allowing all of the ordinary and necessary expenses paid or incurred for the production or collection of income or for the management, *conservation,* or *maintenance* of property held for the production of income. Thus, whether or not the expense is in connection with the taxpayer's trade or business, if it is expended in the pursuit of income or in connection with property *held* for the production of income, it is allowable." (Emphasis added).

From this language it is entirely clear that Congress had in mind the allowance of the expense deduction, whether or not the taxpayer was in active pursuit

of income from the property or merely holding it in the hope of some future realization of income, with such activities as would be incidental thereto.

"Held does not imply 'used' or 'held for use', as Congress would presumably have used some such language if it had so intended, and the Committee Report above quoted separately covers expenses incurred in the "pursuit" of income, "or in connection with property *held* for the production of income". (Emphasis supplied). There also seems to be no distinction possible between such a holding of property for rental income or for capital gains, as there is no substantial difference between the two uses in the nature or amount of activity required in the conservation or maintenance of the property involved.

This distinction is clearly drawn by the Supreme Court in *Bingham's Trust v. Commissioner,* 325 U.S. 365; 65 S. Ct. 1232; 89 L. Ed. 1670; the Court saying, in the third from last paragraph of its opinion, that deductions are allowable under Section 23 (a)(2), (now Section 212(2)), if "directly connected with or proximately result from the enterprise—the management of property held for the production of income" and need not pertain to the actual production of the income.

As the language used in connection with the allowance of depreciation is identical with that used in the expense provision, and was brought into the law at the same time, it seems clear that it should be given the same meaning. (See *Fagan,* P-H Memo T.C., par. 50,017, and *Mitchell,* 47 T.C. 120 (1966)). Pursuant to the above statutes, the Tax Court here held that

Respondents' property was held for the production of income [T. -25]. It is perfectly clear, from the stipulated facts, that Respondents were holding the property for sale, and for no other purpose, from the time that they abandoned it as their home, and Petitioner does not appear to question this. The Tax Court appears to conclude from this that, factually, the property was not being held for any "personal, living or family" use, but only to obtain income from sale of it. Such a conclusion from the facts stipulated is to be accepted by this Court unless clearly erroneous under FRCP rule 52(a), as applied in the last paragraph of *Achong v. Commissioner,* 246 F. 2d 445, by this Court.

This Court and other Courts have uniformly held in other contexts that the purpose for which a taxpayer is holding property is a question of fact and that the determination of it by the trial court (here the Tax Court) from all of the facts, is not to be disturbed on appeal if supported by substantial evidence. This rule seems equally applicable here. *Stockton Harbor Industrial Co. v. Commissioner,* 216 F. 2d 628 (C.A. 9-1954) issues I and IV. *Heller Trust Company v. Commissioner,* 382 F. 2d 675 (C.A. 9-1957) (Point 1).

Under the above cases, and *Achong v. Commissioner,* (above) it appears that the conclusion of the Tax Court in the case at bar, that Respondents were holding the property for the production of income, is itself a well supported conclusion of fact, and therefore decisive of this case in favor of these taxpayers. See also the later part of the opinion in *McDonald v. Commissioner,* 323 U.S. 57; 65 S. Ct. 96; 89 L. Ed. 68, and the last paragraph of *Duval Motor Co. v. Commissioner,* 264 F. 2d 548 (C.A. 5-1959).

B. The Tax Court's Application of the Law.

The Tax Court, however, stated that a question of law is involved, so it seems desirable that this case be discussed from that standpoint, also. The applicability (to these factual conclusions) of the two last mentioned sections of the Code seems to be what the Tax Court must have considered as the question of law involved. The Tax Court ruled that, as a matter of law, the two sections in question did apply, and entitled the taxpayers to the deductions which they claimed. This conclusion by the Tax Court, as to the law, (if such it be) is, of course, entitled to be given substantial weight by this Court under the rule of *Dobson v. Commissioner,* 320 U.S. 498, 64 S. Ct. 239, 247, 88 L. Ed. 248, where it is held that a decision of the Tax Court should not be reversed unless the reviewing Court can identify a clear-cut mistake of law. See also the latter part of *McDonald v. Commissioner,* (above). These principles have been recognized by this Court in several cases. See *Stockton Harbor Industrial Co. v. Commissioner,* 216 F. 2d 628 (1954) and the last paragraph of *Achong,* (above). Petitioner, in the case at bar, is therefore faced with the considerable burden of demonstrating, to the satisfaction of this Court, that the Tax Court made a clear-cut mistake of law, in determining that property, which was held solely for the purpose of sale, does not come within the scope of the above two sections authorizing deductions in connection with property "held for the production of income".

C. Congressional Intent.

When Congress in 1942 passed the statutory amendments which brought into the law the predecessors to Sections 167(a)(2) and 212(2), they did so for the purpose of equalizing the positions of taxpayers who were holding property for the production of income with taxpayers who were using property in their trade or business, with respect to the allowance of depreciation and expenses. In this connection, the Committee Report of the House of Representatives appearing at 1942 C.B., part 2, p. 410 (quoted in paragraph A. above) is clearly a provision for relief of one class of taxpayers to equalize them with another class, as a matter of public policy. This is further evidenced by Congress' action in making this provision retroactive. This provsion is therefore to be interpreted broadly to accomplish the purpose of Congress, where that purpose is consistent with the language of the statute. *Malat v. Riddell,* 383 U.S. 569; 86 S. Ct. 1030; 16 L. Ed. 2d 102; *United States v. Pleasants,* 305 U.S. 359; 59 S. Ct. 281 (Point 3); 83 L. Ed. 217. The identical language of Section 167(a)(2) allowing depreciation, passed at the same time, and having the same justification, must clearly be given the same interpretation. See *Fagan* and *Mitchell* above.)

The language used, that property need only be held for the production of income, is broad and clearly includes this intent of Congress that there be no requirement that any *current* income be obtainable or even sought. The Supreme Court has held that such expenses, to be allowable, need pertain only to the property so held, and need not be related to the actual production

of any income. See *Bingham's Trust v. Commissioner,* (above) (Point 8).

The use by Congress, in Section 62(5), of the phrase "Property held for the production of rents—" as a limitation on the application of Section 212 and in Section 165(c) of the phrase "—transaction entered into for profit" also indicate that Congress had no intention of limiting the phrase "held for the production of income" to the more restricted situations described in those two subsections.

D. Petitioner's Regulations.

The Petitioner's present Regulations regarding depreciation (Section 1.167(a)(2)) recognizes this purpose and effect of the statutory language. The only exception with regard to improvements on real property which is otherwise subject to depreciation reads as follows: "No deduction for depreciation shall be allowed—on a building used by the taxpayer solely as his residence, or on furniture or furnishings therein, personal effects, or clothing;—". No exception is made for property *formerly* used by the taxpayer as his residence, but no longer so used, and held only in the hope of a possible gain through sale.

The Regulations with regard to expenses are more elaborate. Regulation Section 1.212-1(b) specifically stating that the term "income" as used in Section 212, "is not confined to recurring income, but applies as well to gains from the disposition of property. For example, if defaulted bonds, the interest from which if received would be includible in income, are purchased with the expectation of *realizing capital gain* on their resale, even though no current yield thereon is antici-

pated—" (Emphasis supplied), expenses in connection therewith are allowable. It further states that such expenses are deductible in connection with property held for investment "even though the property is not currently productive and there is no likelihood that the property will be sold at a profit or will otherwise be productive of income and even though the property is held merely to minimize a loss with respect thereto." This is consistent with the holding of the Court of Appeals for the District of Columbia in *Doggett v. Burnett,* 65 F. 2d 191, that even to be a business there need not be any contemplation of a profit. Again in subdivision (h) an exception is made with regard to "property held for use as a residence by the taxpayer", which is substantially identical with the exception above quoted in regard to depreciation, and again is not extended to a taxpayer's *former* residence, no longer held for such use.

This subdivision (h) specifically authorizes deductions in connection with rental property, but nowhere does Section 212 undertake to confine such deductions solely to rental property.

If the statements and examples given in Regulation Subsections 1.212(a) and (h) regarding expenses had been intended to restrict the meaning of "held for the production of income", instead of merely illustrating it, they would also no doubt have been included in subsection 1.167(a)(2) regarding depreciation, as the applicable Code language is, as above noted, the same.

E. Applicable Case Law.

It is long established law that words used in the Revenue laws are to be given their "ordinary, everyday senses" except under such circumstances that some

other meaning must be used to effect the legislative purpose, and the language is not inconsistent with that purpose. *Malat v. Riddell,* (above); *Commissioner v. Korell,* 399 U.S. 619; 70 S. Ct. 905; 94 L. Ed. 546. The extent of the deduction depends on legislative policy of Congress, as "expressed in the fair and natural meaning of Section 23". *Lykes v. United States,* 343 U.S. 118; 72 S. Ct. 585; 96 L. Ed. 791.

It is also long established law that the word "income" includes the gain realized by a single isolated sale of property, as the commonly understood meaning of the term when the income tax law was enacted. *Merchants Loan & Trust Co. v. Smietanka,* 255 U.S. 509; 41 S. Ct. 386; 65 L. Ed. 751. The Court of Appeals for the Fourth Circuit, in *May v. Commissioner,* 299 F. 2d 725 (1962) considered the law to be well established that a taxpayer, under facts such as the case at bar, is entitled to the deductions allowed by the Tax Court.

Thus, the efforts of the Petitioner to restrict the benefits of Sections 167(a)(2) and 212(2) by excluding therefrom property held for possible capital gain, whether or not current income is sought, seems entirely contrary to established law.

This is particularly true of Petitioner's effort, in the case at bar, to exclude the holding of improved real estate when his own regulation gives an example allowing expense deductions in the case of a defaulted bond, held in the hope of ultimate gain on sale, though no current income may be expected, and, indeed, if it is held only in the hope of minimizing a loss. See Regulation 1.212-1(b). Both defaulted bonds and improved real estate are clearly "property".

There are many cases in the Tax Court and elsewhere, which allow deductions such as are here in issue where a former home has been offered for rental, even though never rented. It was the position of the Petitioner in the Tax Court and in his Petition for Review herein, that the sole point at issue in the case at bar is that these deductions should not be allowed because Respondents did not offer their former residence for rent [T. -28, 29], recognizing that an offering for rent would have made these expenses and depreciation deductible. Petitioner's position would have the very undesirable and unfair effect of discriminating between an honest taxpayer offering his property for sale only, and a devious one offering his property also for rent but finding some reasonable sounding excuse to turn down any prospective tenant.

In the Petitioner's original Regulations under the 1942 Act, it was stated that such expenses were not deductible even though efforts were being made to sell prior to the time the property was rented "or otherwise appropriated to income producing purposes". Regulation 103, Sections 19.23(a)-15 (as amended by T.D. 5196). The Tax Court in the case of *Warren Leslie,* 6 T.C. 488, 494 (1946) upheld this requirement of the Regulations for the year 1940 over a vigorous and cogent dissent by Judge Disney in which Judge Leech agreed. This dissenting opinion, starting at Page 495, appears to Petitioner to be the most thorough and penetrating discussion of the allowance of expenses, such as are in issue in the case at bar, that appears in any of the cases which Petitioner has found. After the *Leslie* case, Petitioner, apparently agreeing with Judge Disney's opinion, rewrote the applicable Regu-

lation into its present form, omitting therefrom the language above mentioned requiring that property be rented or otherwise appropriated to income producing purposes before such expenses would be deductible. (Regulation Section 1.212-1(b) and (h)). As pointed out by Judge Disney, the requirement of the statute for the allowance of these expense deductions is met merely by holding the property for the production of income and there is now nothing in the Regulations to the contrary. (Of course, a residence while being occupied as his home by the taxpayer is not entitled to this deduction because Section 262 of the 1954 Code specifically disallows deductions for "personal, living or family expenses".) The *Leslie* case can no longer be considered authority because the ground was cut out from under it by the removal from the Regulations of the language on which it was based. It seems to have been followed on this point in only one case, *Coulter,* 9 T.C. Memo 248 (1950) par. 50,077 P-HT.C. Memo. In *Coulter,* however, the judge based his decision on the ground that there was no rental "to mark the conversion from personal to business use". From this it would appear that the Court completely overlooked the 1942 amendments authorizing such deductions on property held for the production of income, as these amendments are neither mentioned nor discussed, although the years at issue were 1943 and 1944. Obviously, this case cannot be considered authority as to the application of the 1942 amendments.

Other Tax Court cases are mentioned by Petitioner on Page 15 of his brief. It may be unnecessary for this Court to review these Tax Court cases in view of the Tax Court conclusion in the case at bar, under the

rule stated by the Supreme Court in *McDonald v. Commissioner,* 323 U.S. 57; 65 S. Ct. 96; 89 L. Ed. 68; that reviewing courts are not to upset Tax Court decisions by analyzing details of previous Tax Court decisions, under the *Dobson* rule limiting the scope of such review. The following comments on these Tax Court cases, comprising the remainder of this Part I, are offered, if this Court desires, nevertheless, to consider them.

The cases cited by Petitioner are *Melone, Stutz, Neave, Jones, Horrmann, Fagan,* and *Newberry.* Some of these cases disallow deductions for depreciation or expenses, or both, because the property was not offered for rent. None of them, however, goes so far as to say that an offer for rent is the only, or an essential, manner of proving that the property was held for the production of income and in none of them was other convincing evidence mentioned that showed the taxpayer had permanently abandoned his residential intentions with regard to the property in question. In particular, in the *Neave* case (17 T.C. 1237, 1243) the Court specifically points out that neither the Petitioner nor his wife testified, that they did not acquire another permanent home until later and left their furniture in the house until about the time of sale. Clearly, there was absent in this *Neave* case any evidence to indicate that the house had been permanently abandoned as the taxpayers' home, as they could have returned to it at any time during the years in question, as the Tax Court points out, except perhaps during the short period of a temporary summer rental. There would, however, have been no point to the recital by the Court of the above mentioned circumstances if an offering for rent was the only, or an essential, piece of evidence necessary to

entitle the taxpayer to the deductions claimed. (Respondents agree that a temporary rental is not decisive of the issues here involved in either direction).

In its Notice of Appeal herein, and before the Tax Court, Petitioner took the position that the Tax Court decisions mentioned required the conclusion that the property had to be offered for rent to obtain the benefit of the depreciation and expense deductions. This distinction is inherently a very weak one, as a mere offering for rent does not preclude the intent to later resume personal occupancy and depends solely on what the taxpayer *says* he intends to do, as contrasted with such actions as these taxpayers took. (Stipulation of Facts 6 through 12 [T. -16, 17].) It seems that the conclusions to the contrary of at least five judges of the Tax Court should be given conclusive effect as to the rule in that Court, (Petitioner to the contrary notwithstanding), particularly as they are supported by the wholehearted agreement of the learned judges of the Fourth Circuit Court of Appeals in *May v. Commissioner,* (above). The cases where these opinions are expressed are the following:

Robinson, 2 T.C. 305, where Judge Disney, at Page 308, states, "The Petitioner was clearly holding the property for sale—attempting to sell it—so was holding it for production of income for gain from sale." In view of this language, the fact that the property was also offered for rent, and the garage was actually rented briefly (Page 309), must be taken as separate grounds for the decision and not as taking the place of the holding above quoted. The *Leslie* case might be considered as overruling *Robinson,* except that the language of the Regulation on which it was based was

later abandoned by Petitioner and it does not appear in the *Leslie* case that there was any evidence, other than the taxpayer's removal from the premises and the offer for sale, to demonstrate that the character of the property as taxpayer's residence had actually been terminated.

In *Fagan* (P-H Memo TC., par. 50,017), Judge Van Fossan expressly applied the *Robinson* rule to the allowance of depreciation from the time the taxpayer abandoned her residential purpose in holding the house and offered it for sale. He states as follows:

> "In our opinion, a proper interpretation of the term 'property held for the production of income' would lead to the conclusion that this property was so held in 1933 when it was permanently abandoned as a residence and offered for sale. Such would seem to be within our holding in the Robinson case. We so find."

The Court also quotes the portion of the present Regulations allowing expenses where the property is held merely to minimize a loss, and applies this language to the depreciation issue also. Petitioner, at the foot of Page 15 of his brief (number 4), seeks to weaken the *Fagan* case by pointing out that the taxpayer had used the property for residential purposes only occasionally and briefly. Nevertheless, until the property was offered for sale, this was the only action of the taxpayer indicating her purpose in holding the property and it was entirely clear that in building the house the taxpayer intended it to be her personal residence. This intention would, of course, continue to control until the property was offered for sale and the taxpayer abandoned her residential purpose in connection with it.

Such being the case, the fact that her actual occupancy of it was minimal is clearly immaterial.

In *Leslie* (above) Judge Leech joined in Judge Disney's position dissenting from the majority decision, even in the face of the language in the Regulation above referred to as then effective.

In *O'Madigan,* P-H Memo T.C. 1960, par. 60,212 Judge Hanson states that "holding a property for sale was holding it for the production of income" and allowed maintenance expenses as being necessary "in connection with his efforts to *sell* his property." (Emphasis supplied). While it is true that the property was also rented during part of the time that it was offered for sale, the above quoted language makes it clear that Judge Hanson did not consider that circumstance to be essential to the allowance of the deductions. He cites both the *Robinson* case (above discussed) and the *Horrmann* case (17 T.C. 903) as so holding. While the applicable language of the *Horrmann* case (bottom of Page 907 and top of Page 908) is not entirely clear on this subject, it does appear that efforts to rent the property were not made during all of the period in question so the case is certainly subject to the interpretation which Judge Hanson places upon it.

Thus, when Judge Arundell, in the case at bar, squarely holds that this property, held for sale, was therefore held for the production of income and entitled the Respondents to the deductions claimed, he adds the fifth to the judges of the Tax Court so holding. In

addition to the *Robinson* case, he cites the *Mitchell* case just previously decided by him (47 T.C. 120) and the Federal District Court case of *Riley v. U.S.*, 189 F. Supp. 510, 513, 514. In the *Riley* case the Court approved and followed *Robinson* (above) allowing deductions in connection with an "own your own" apartment while offered for sale, and before it was offered for rent. That taxpayer had moved into a house which he had purchased and moved all his personal property out of the apartment, thus evidencing the termination of the status of the apartment as taxpayer's residence. In the *Riley* case, the Tax Court cases above mentioned and others referred to by the Government in its brief in the case at bar, are discussed to the same effect as hereinabove urged on behalf of these taxpayers.

In the case of *May v. Commissioner,* 299 F. 2d 725 (1962) three judges of the Court of Appeals for the Fourth Circuit gave their thorough going approval to the Tax Court decision in *Fagan* (above). The *May* decision states "—the tax law recognizes that certain kinds of property held for sale without more may qualify for the deductions,". Citing *Fagan* and *Newberry* (below). Again, "In regard to nonbusiness properties unrented or withdrawn from rent, these statutes disclose an intent to allow deduction of expenses and depreciation only on buildings and similar holdings." Further on the Court states, "When property has the unique qualities of a pleasure boat, even stouter evidence of conversion is demanded than is requisite in the absence of such unicity. In contrast, a building

such as a residence changes its character as readily as its owner takes up other abode, since for that purpose he cannot at whim return." True, this language of the Fourth Circuit appears in a case distinguishing between a pleasure yacht there involved and a residence so is not a direct holding by that Court, but the above quoted language is certainly clear and convincing as to the views of that Court on this subject and its approval of the *Fagan* decision. The *Newberry* case (P-H Memo T.C., par. 45,077) does not seem to be directly in point as it involved inherited property, never occupied as a residence. It does, however, support the proposition that residential property not used by the taxpayers for residential purposes need only be offered for sale to permit deductions for expenses and depreciation, even though not offered for rent. Judge Arnold states that he sees no valid distinction between holding property for sale and holding it for rent, thus adding the weight of the opinion of another Tax Court judge to the five above mentioned.

In view of the foregoing heavy weight of judicial interpretation of the decisions of the Tax Court in favor of the position of Respondents in the case at bar, there seems little reason for this Court to give much weight to Petitioner's claims to the contrary. Here again, it seems appropriate to call particular attention to the Stipulation of Facts, numbers 5 through 12 [T. -16, 17], showing that Respondents here did a great deal more to establish the termination of the residential character of the Arcadia property than merely to move out of it and offer it for sale.

PART II.

DISCUSSION OF PETITIONER'S ARGUMENT.

A. Petitioner's General Argument.

The general argument by Petitioner, including most of the cases there cited, is covered in Part I, paragraphs A. through E. of the case for the taxpayers, which will not be repeated here except as portions of the taxpayers' argument bear particularly on points sought to be made by Petitioner.

Petitioner's argument first places heavy reliance on *United States v. Gilmore,* 372 U.S. 39, 44, 46, 83 S. Ct. 623, 9 L. Ed. 2d 570. That case is not in point, however, to the situation involved in the case at bar and, to the extent that it touches on such a situation as is herein involved, it supports the position of these taxpayers. It must be borne in mind that the *Gilmore* case disallows attorneys' fees in connection with a divorce, which were claimed as a deduction because if the divorce case had been lost, the taxpayer might have been severely crippled in the economic sense. The Court carefully distinguishes such a situation, where the expenses themselves are not related to the taxpayer's property and the effect on it would only be indirect and consequential, from those cases where the expenses are directly related to the property from which income is sought. This is entirely clear from the language in the second paragraph of Point I where the Court says, "For in context 'conservation of property' seems to refer to operations performed with respect to the property itself such as safeguarding or upkeep rather than a taxpayer's retention of ownership of it." In the case at bar, the expenses were the very type here specifically approved by the Supreme Court. They were for the

"upkeep" of the property and were not related to any effort of the taxpayer to retain his ownership of it against some adverse threat.

In later stating that the expense item involved must be one that has a business origin, the Court is clearly referring to the kind of activity which is directly connected with the purpose for which the property is being held and cannot be considered as limiting such deductions to activities which would constitute a trade or business. The Supreme Court uses the general word "business". This has many meanings. Webster's Third International Dictionary, Unabridged (1961), gives a half column to them. Among these 1 a.(3) reads, "an activity engaged in toward an immediate and specific end and usually extending over a limited period of time." The Court itself equates "business" purpose with "profit seeking purpose". Taxpayers' activities in repairing and maintaining their former home while trying to sell it come within this definition. As the Supreme Court notes, it was the purpose of Section 23(a)(2) of the 1939 Code (now Section 212(2)) to extend such deductions to cases where the search for profit was involved, as distinguished only from satisfying the needs of the taxpayer as a human, and those of his family, "who cannot deduct such consumption and related expenditures."

The Supreme Court was, no doubt, aware of the many cases above cited where expenses (and depreciation) were allowed in connection with a former home which was no longer being used to satisfy the creature needs of a taxpayer and his family. To overrule all of those cases, including those in which the former residence was offered for rent, would surely require some

more direct holding than that a distinction must be made between business and personal or family expenses. Once the taxpayers, in the case at bar, had established a new home, with no intention or probability of ever returning to the old one, the old one clearly no longer had any capacity for satisfying any personal or family desire of the taxpayers. The only purpose of their continued holding was to make a profit or minimize a loss upon its sale, which is obviously of a business rather than of a personal nature, as those purposes are distinguished by the Supreme Court in *Gilmore* (above) and in the many other cases cited on behalf of the taxpayers in Part I E. of this brief.

The most that can be said for Petitioner's claim, (on pages 11 and 12 of his brief), that the expense incurring activities of an investor be only as comprehensive as those which would also be allowable if incurred in a taxpayer's business, is that they should be for the same purposes and of the same kinds as are allowed as business deductions. There can be no doubt that a taxpayer in the business of buying and selling used boats would engage in the activities and expenditures necessary to see that they were well maintained, repaired and kept up in order to sell them to advantage. This is exactly the kind and quality of activity in which these taxpayers were engaging when they spent money for the same purposes on their former home, and for the same reason—to dispose of it, advantageously if possible. Allowance of these deductions surely involves no more favorable tax treatment than would be accorded the business man who did the same things.

Petitioner also cites the *Guffey* case in this Court, 339 F. 2d 759 (1964). The *Guffey* case is clearly not

in point as there the question was one of loss on sale of the former home, which is not here in issue. Numerous cases over a long period of years have made it clear that the rule is different where a loss is sought and that in such a case there must have been an actual conversion of the property to a business type of use in order to meet the requirement that the loss be incurred in a transaction entered into for profit under Section 165(c)(2) and its predecessor. *United States v. Kyle,* 242 F. 2d 825, and *Seletos v. Commissioner,* 254 F. 2d 794 are also sale cases, so not in point.

The Tax Court cases mentioned on Page 16 of Petitioner's brief are adequately covered in Part I E. of this brief. Nowhere in any of the above cases, or in the Statutes or Regulations here involved, has any authority been found for the statement by Petitioner at the top of Page 10 of his brief, that a former residence must be put to an investment *use* to justify these deductions. To so rule would give the word "held" the same effect in subsection 167(a)(2) of the Code as the very different word "used" in subsection 167(a)(1). This would substantially thwart the equalization purpose expressed by Congress for adding subsection 167(a)(2). (See Committee report quoted in Part I A. hereof.)

Petitioner then seeks to use Section 1034 as supporting his position by analogy. As that section is a separate relief section, adopted long after the sections here being considered and applying to an entirely different situation, it does not appear to have any bearing on the case at bar. In any event, Petitioner would, no doubt, vigorously protest any effort by a taxpayer to take advantage of the benefits of Section 1034 if the residential character of his former residence had

been definitely abandoned long before a new residence was acquired.

Starting on Page 19 of his brief, Petitioner then seems to confuse the transaction of disposing of the former residence with its status while being held by the taxpayers after they had abandoned it for residential purposes. Taxpayers vigorously disagree that the sale of a former home, no longer held for any personal or family purposes, is a personal transaction. Nevertheless, it is the period of the *holding* of the property, and expenses and depreciation during such holding, which is the subject of the Code sections here involved, and the question of whether, if ever, during his lifetime a taxpayer is able to dispose of his former home at a satisfactory price, or acquires a new home, should have no bearing on the allowance of expenses and depreciation while the former home is being held for sale, (except as evidence of the taxpayer's intent to terminate the home status of the former dwelling).

Petitioner's position is basically an effort to circumvent the holding of this Court in *Austin v. Commissioner,* 262 F. 2d 460 (1959), that the purpose for which property is acquired is only one factor in determining the purpose for which it is being held later on, and not a controlling one where other evidence overcomes it. He does this by attempting to attribute the personal nature of taxpayers' occupancy of the property while it was his home, to the period after that purpose had been abandoned and transferred to the taxpayers' new home. He seeks to accomplish this by using the device of claiming that the sale of the property was a personal transaction, instead of a primarily economic one, and substituting this alleged nature of the trans-

action for the statutory concept of the holding of the property. This clearly is contrary to the numerous cases above cited, including *Gilmore.* Counsel for the taxpayers is not aware of any instances in the Revenue Code where two actions by a taxpayer, which are as far separate in time and space as the construction by these taxpayers of their new home and the sale of their former one, are treated as constituting parts of one transaction. Petitioner's statement on Page 20 as to the "obvious" reason why Congress did mention the effect of a temporary rental of a home that is held for sale under Section 1034 and did not under Sections 167(a) and 212(2) seems entirely immaterial and erroneous because a temporary rental had already been held to be immaterial in cases such as the case at bar, (see *Robinson* (above) and *Neave* (above)), so Congress was only indicating that the same rule should apply under Section 1034. In Section 1034 Congress was merely giving equality of treatment to a taxpayer selling and buying, with one who exchanged his homes taxfree.

Starting on the middle of Page 20, Petitioner again seems to confuse the transaction aspect of the sale of a residence with the holding for sale of a former residence. In the event the old house is sold before the taxpayer moves, the sections here in question never apply. They do apply in any case where the taxpayer has abandoned the personal residential use of his former home before sale and this is so regardless of when, if ever, a new home is purchased (except as such a purchase may be considered evidence of abandonment of the residential character of the former home.) Thus, as hereinbefore stated, as long as the personal, living or family nature of the former home has terminated, these

sections come into play as the property no longer satisfies any personal or family need of the taxpayer.

At the middle of Page 21, Petitioner makes the unsupported statement that the real estate market was declining while the taxpayers were trying to sell their former home. It is much more likely that the depreciation of the property and the absentee status of the taxpayers brought about their acceptance of the reduced price.

Petitioner then seeks to equate a former residence, which the owners are trying to get their money out of, with personal assets such as pleasure boats, automobiles and home appliances. This contention is exactly what the Tax Court cases cited in Part I E. of this Argument, and the Fourth Circuit case there cited, effectively dispose of. In addition, where the Regulations except the taxpayer's home, they make no mention of a former home, and the provisions regarding disallowance of personal asset expenses make no mention of a former home (Regulation Section 1.212-1(h) and Section 1.167(a)-2).

So far as the removal of these taxpayers from the old residence of certain furnishings and planting is concerned, it was obviously because the taxpayers considered that these things would be of more value to them in connection with their new home than they would be able to get out of them by leaving them at the abandoned home and the removal of part of the planting would decrease maintenance expenses. This is entirely consistent with the wish of the taxpayers to obtain for themselves the most economic benefit from their old home, and is in no way inconsistent with their continued holding of it being for the purpose of obtaining

income (or minimizing a loss) by sale of it. Finally, when a homeowner is not able to sell his former home, simultaneously with the moving into of a new home, is just why that taxpayer is entitled to the deductions here allowed by the Tax Court. Any difference in treatment between that taxpayer and one who first sells his old house is due solely to the real difference in their positions,—the fact that the more fortunate taxpayer is relieved of the expense and does not suffer the depreciation that the taxpayers in the case at bar sustained. The taxpayers in this case were receiving none of the personal benefits of the continuing occupation of their old home which, while so occupied, takes the place of the expense and depreciation allowable while they were carrying it without any such personal benefit.

B. Petitioner's Special Argument Regarding Depreciation.

In Part II of his brief, Petitioner makes the bald statement that depreciation deductions are not allowable on assets held solely for sale. This statement runs contrary to all of the cases involving depreciation which have been cited in Part I E. of this brief. He seems to place this on the grounds that depreciation can only be taken on property which is "actively used in an investment activity". There is certainly no more active use made of a former residence that is held for rent as well as for sale, than there is of one that is held for sale only. Petitioner's claim would, therefore, result in striking down the allowance of depreciation on houses held for sale and for rent, as well as on those held for sale.

The Tax Court has consistently allowed depreciation where the property was held for rent and, in the case at bar, the Petitioner in the Tax Court and on Page 3 of his Petition for Review herein [T. -29], concedes that an offering for rent would have entitled these taxpayers to the depreciation deduction.

Petitioner also acquiesced in the Tax Court decision in *Mitchell,* 47 T.C. 120, decided as recently as November, 1966. In *Warner,* P-H Memo T.C., par. 47,144, the Tax Court mentions that the Petitioner there had stipulated to the allowance of expenses and depreciation while the taxpayers' former residence was idle. Footnote No. 3 to *Rogers,* P-H Memo T.C., par. 65,008 shows the same stipulation in that case as to depreciation. In view of this long continued acceptance by the Tax Court and the Petitioner, it seems far too late for the Petitioner to now assert that depreciation cannot be allowed on property held only for sale.

It should also be noted that the prohibition against depreciating inventory property does not extend to property held for sale but not considered inventory (Regulation Section 1.167(a)-(2).) Here would have been a logical place to so provide, if in fact depreciation were not intended to be allowable on non-inventory property held, nevertheless, for sale.

Considerable weight should also be given to the 1954 Code re-enactment by Congress, continuing the language of the 1942 Code on these points, after the Tax Court had decided *Robinson* and *Fagan* in favor of the taxpayers, with the Commissioner's stipulation in *Warner* also in the books. It is, of course, a well established rule that Congress is presumed to have accepted the previous interpretations by the Courts and

the Commissioner when it re-enacts a statute without change. *Biddle v. Commissioner,* 302 U.S. 573, 58 S. Ct. 379, 381, 82 L. Ed. 431.

On page 24 Petitioner cites a number of cases in support of his proposition that depreciation may not be taken on business property which is held only for sale. Some of these are based on the inventory concept of the property involved, several of them merely determine the proper date when depreciation should start, and all of them depend on the proposition that the property involved was used, or for use, in the taxpayer's trade or business. It should also be noted that all of them involved property which would either be used up, worn out, or sold in the course of the taxpayer's business operations. None of them is authority for the statement near the top of Page 25 that depreciation can be taken only on property which is actually used in an investment activity, where the Statute says "held".

To hold that all of the same rules applying under Regulation Section 1.167(a)-1 are applicable to subdivision 2 in the sense urged by Petitioner, would require that the phrase "held for the production of income" means substantially the same thing as "used in the trade or business". No cases are cited by Petitioner, nor found by taxpayers' counsel, where the meaning of the phrase "held for the production of income" is so restricted. Rather, it would appear that the limitations and restrictions applicable to both of these subsections refer to such things as the use of the property for personal or family purposes, or for pleasure, and the denial of such deductions for inventory property.

Petitioner then asserts that the function of depreciation is fundamentally inconsistent with allowing an in-

vestor to depreciate property held solely for sale. He cites *Massey Motors,* 364 U.S. 92, 80 S. Ct. 1581, 4 L. Ed. 2d 59 where the only issue was the length of time which should be used in computing the depreciation where the taxpayer's actual expected use in his business was less than the economic life of the property. The Court carefully points out (Point 1) that it is the ". . . type of asset, where the *experience of the taxpayers* clearly indicates a utilization of the asset for a substantially shorter period than its full economic life, that we are concerned with in these cases." (Emphasis supplied).

In *Detroit Edison Co. v. Commissioner,* 319 U.S. 98, 101; 63 S. Ct. 902; 87 L. Ed. 1286; the Supreme Court stated, "The end and purpose of it all (depreciation) is to approximate and reflect the consequences to the taxpayer of the subtle effects of *time* and use on the value of his capital assets." (Emphasis supplied).

United States v. Ludey, 274 U.S. 295, 47 S. Ct. 608, 71 L. Ed. 1054; involves only operating business property, and in *Burnet v. Harmel,* 287 U.S. 103, 53 S. Ct. 74, 77 L. Ed. 199, the issue of depreciation does not appear to be involved at all. None of these cases is authority for the disallowance of depreciation on property held for sale and the specific recognition of time as one factor in depreciation in *Detroit Edison Co. v. Commissioner* is some indication to the contrary.

Petitioner then states that where an asset is held only for ultimate sale, the gain or loss takes the place of depreciation. This is clearly not the case, as the gain or loss, where the property is not of an inventory character, is often capital in nature, whereas the deprecia-

tion is a deduction from ordinary income. The separation of the two concepts for tax purposes was firmly decided in 1966 by the Supreme Court in *Fribourg Navigation Co. v. Commissioner,* 383 U.S. 272, 277, 279, 281, 283, 86 S. Ct. 862; 15 L. Ed. 2d 751, Point I; where the Court allowed depreciation in the year of sale, saying, "By tying depreciation to sales price in this manner, the Commissioner has commingled two distinct and established concepts of tax accounting—depreciation of an asset through wear and tear or *gradual expiration* of its useful life and fluctuations in the value of that asset through changes in price levels or market values." (Emphasis supplied). *Fribourg* was followed in *The Motorlease Corporation v. U.S.,* 383 U.S. 573; 86 S. Ct. 1076; 16 L. Ed. 2d 106.

In the case of these taxpayers, it would be particularly unfair and unreasonable to deny the allowance for depreciation because their loss, when they sold the property, was not deductible even to the extent of the reduction in value between the time they abandoned the property as their home and the date when they finally sold it. (I.R.C. Sec. 165(c)(2); *Morgan v. Commissioner* (C.A. 5), 76 F. 2d 390.

Starting on Page 26, the Petitioner asserts that no depreciation deduction should be allowed because of the difficulty of arriving at estimated useful life and salvage value for property held only for sale, in spite of the fact that *all* useful life and salvage values are, at best, merely informed guesswork. He cites Section 1.167 (a)-1(a) and (g)-1 of the 1954 Code Regulations. In doing so, he seems to overlook entirely several points. First, these subsections are designed for situations like *Massey Motors* (above) where property used in business

operations may have a useful life to the taxpayer, which is less than its economic life; second, the imperative of Code Section 167(a) that depreciation *shall* be allowed on property held for the production of income, and Section 1.167(b)-0(a) authorizing any reasonable method and, third, the specific approval of the straight line method in the same Regulation Section 1.167(b)-1(a), which appears in the Appendix hereto. This provides that, in effect, the basis of the property, less its estimated salvage value, is deductible in estimated annual installments over the period of the estimated useful life of the property, that the straight line method may be used for any property subject to depreciation under Section 167, and *shall be used* where the taxpayer has not adopted a different acceptable method. In the case at bar, this is exactly what was done by the Petitioner in calculating the depreciation for the Tax Court judgment. The estimated useful life of the property was stipulated [T. -19], together with its basis at the date of its abandonment as taxpayers' home [T. -18, par. 20]. These stipulated findings of fact resulted in the determination of the amounts of the judgment, calculated and stipulated to by Petitioner. These calculations assumed that there was no salvage value. If Petitioner wished to question them, he should have done so in the Tax Court.

The straight line method of depreciation is, of course, the time-honored original method from which variations have been permitted by Statute and Regulation in various special situations. It should be particularly noted that the last mentioned subsection, appearing in the Appendix hereto, makes the annual deduction depend on the "useful life of the property". Nothing is

said here about the estimated useful life in the hands of the taxpayer, or in the taxpayer's business, or for the term for which the taxpayer expects to hold it. For cases where the Petitioner used the straight line method though an alternative under Regulation 1.167 (a)-1(b) and (c) was available, see the cases cited under issue II of the opinion of Justice Harlan in *Massey Motors* (above).

In the case of improvements on real property, none of the cases which Petitioner has cited, or that taxpayers' counsel found, indicates any necessity for the use of any other method than that set out in this last subsection.

So far as salvage value is concerned, it is a well-known fact of which this Court can, no doubt, take judicial notice, that a residence suffers little depreciation from actual use. Its depreciation is chiefly due to deterioration from the passage of time, from the work of the elements, rust, corrosion, termites, and rot—plus the obsolescence of changing styles of architecture, interior arrangement and built-in equipment, such as lighting and plumbing, and the changing character of neighborhoods. After these factors have terminated the useful life of a residence, far from having a salvage value, the necessity of tearing it down in order to make a suitable new use of the land is much more likely to cause a negative expense, rather than to yield a positive return from any salvage.

It might be further noted that this straight line method appears to have been that used in all of the depreciation cases cited in Part I E. of this brief, and the question has never been raised in any of them as to how long the taxpayer might retain the property or what its salvage value at the time of sale might be, even though in all those cases the property was offered for sale.

In view of the foregoing, taxpayers submit that Petitioner's entire argument directed specially to depreciation, starting on page 23 of his brief, is founded on a complete misconception of the nature of depreciation of a residence, the erroneous application thereto of the Law and the Regulations, and faulty reasoning, so should be discarded outright.

Conclusion.

The Supreme Court looks with disfavor on such a "sudden and unwarranted volte-face from a consistent administrative and judicial practice" as is represented by the cases and acquiescences above set out where a former residence is held only for sale, and the cases, acquiescences and administrative practices where offers to rent occurred, as is represented by the positions taken by the Petitioner before this Court. *Fribourg Navigation Co. v. Commissioner,* (above) issue III.

For the reasons stated generally in Part I hereof as to the issues of the allowance of expenses and depreciation, and in the case of the depreciation, also for the

reasons stated in Part II hereof, the taxpayers respectfully submit that the decision of the Tax Court was correct in all respects and, further, that even if some doubt should exist in the minds of the learned judges of this Court that the judgment of the Tax Court should be sustained on the basis of its findings of fact and the implications therefrom, and its application thereto, of the applicable law.

Respectfully submitted,

DANA C. SMITH,
Counsel for Respondents.

Certificate.

I certify that in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dana C. Smith

APPENDIX.

Internal Revenue Code of 1954:

SEC. 167. DEPRECIATION.

(a) *General Rule.*—There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)—

(1) of property used in the trade or business, or

(2) of property held for the production of income.

* * *

(26 U.S.C., 1964 ed., Sec. 167.)

SEC. 212. EXPENSES FOR PRODUCTION OF INCOME.

In the case of an individual, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year—

(1) for the production or collection of income;

(2) for the management, conservation, or maintenance of property held for the production of income; or

(3) in connection with the determination, collection, or refund of any tax.

(26 U.S.C., 1964 ed., Sec. 212.)

SEC. 262. PERSONAL, LIVING, AND FAMILY EXPENSES.

Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.

(26 U.S.C., 1964 ed., Sec. 262.)

SEC. 165. LOSSES.

* * *

(c) *Limitation of Losses of Individuals.*—In the case of an individual, the deduction under subsection (a) shall be limited to—

(1) losses incurred in a trade or business;

(2) losses incurred in any transaction entered into for profit, though not connected with a trade or business; and

* * *

SEC. 62. ADJUSTED GROSS INCOME DEFINED.

* * *

(5) *Deductions attributable to rents and royalties*—The deductions allowed by part VI (sec. 161 and following), by section 212 (relating to expenses for production of income), and by section 611 (relating to depletion) which are attributable to property held for the production of rents or royalties

* * *

SEC. 1034. SALE OR EXCHANGE OF RESIDENCE.

(a) *Nonrecognition of Gain.*—If property (in this section called "old residence") used by the taxpayer as his principal residence is sold by him after December 31, 1953, and, within a period beginning 1 year before the date of such sale and ending 1 year after such date, property (in this section called "new residence") is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized

only to the extent that the taxpayer's adjusted sales price (as defined in subsection (b) of the old residence exceeds the taxpayer's cost of purchasing the new residence.

* * *

Treasury Regulations on Income Tax (1954 Code):

§1.167(b)-0 *Methods of computing depreciation.*

(a) *In general.*—Any reasonable and consistently applied method of computing depreciation may be used or continued in use under section 167. Regardless of the method used in computing depreciation, deductions for depreciation shall not exceed such amounts as may be necessary to recover the unrecovered cost or other basis less salvage during the remaining useful life of the property. The reasonableness of any claim for depreciation shall be determined upon the basis of conditions known to exist at the end of the period for which the return is made. It is the responsibility of the taxpayer to establish the reasonableness of the deduction for depreciation claimed. Generally, depreciation deductions so claimed will be changed only where there is a clear and convincing basis for a change.

* * *

§1.167(b)-1 *Straight line method.*

(a) *Application of method.*—Under the straight line method the cost or other basis of the property less its estimated salvage value is deductible in equal annual amounts over the period of the estimated useful life of the property. The allowance for depreciation for the taxable year is determined

by dividing the adjusted basis of the property at the beginning of the taxable year, less salvage value, by the remaining useful life of the property at such time. For convenience, the allowance so determined may be reduced to a percentage or fraction. The straight line method may be used in determining a reasonable allowance for depreciation for any property which is subject to depreciation under section 167 and it shall be used in all cases where the taxpayer has not adopted a different acceptable method with respect to such property.

* * *

§1.212-1 *Nontrade or nonbusiness expenses.*

* * *

(b) The term "income" for the purpose of section 212 includes not merely income of the taxable year but also income which the taxpayer has realized in a prior taxable year or may realize in subsequent taxable years; and is not confined to recurring income but applies as well to gains from the disposition of property. For example, if defaulted bonds, the interest from which if received would be includible in income, are purchased with the expectation of realizing capital gain on their resale, even though no current yield thereon is anticipated, ordinary and necessary expenses thereafter paid or incurred in connection with such bonds are deductible. Similarly, ordinary and necessary expenses paid or incurred in the management, conservation, or maintenance of a building devoted to rental purposes are deductible notwithstanding that there is actually no income there-

from in the taxable year, and regardless of the manner in which or the purpose for which the property in question was acquired. Expenses paid or incurred in managing, conserving, or maintaining property held for investment may be deductible under section 212 even though the property is not currently productive and there is no likelihood that the property will be sold at a profit or will otherwise be productive of income and even though the property is held merely to minimize a loss with respect thereto.

* * *

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IN THE UNITED STATES COURT OF APPEALS

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COMMISSIONER OF INTERNAL REVENUE,

Petitioner

v.

HULET P. SMITH and LOMA M. SMITH,

Respondents

ON PETITION FOR REVIEW OF THE DECISION OF THE

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REPLY BRIEF FOR THE PETITIONER

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TAX COURT OF THE UNITED STATES

REPLY BRIEF FOR THE PETITIONER

In our opening brief, we made two independent arguments. We argued, first, that the taxpayers are not entitled to deduct either maintenance and repair expenses or depreciation allowances on their old house, after they had changed residences and held the old house for sale, because the transaction was a personal transaction which did not convert the old house to income-producing purposes within the meaning of Section 212(2) or Section 167(a)(2) of the 1954 Code. (Br. 5-7, 9-23.) Second, we argued, alternatively, that even if the taxpayers' former residence was held for the production of income, allowance of depreciation deductions would be improper because the property was held only for sale. (Br. 7-8, 22-29.)

While taxpayers appear (Br. 30-37) to deal separately with our depreciation argument, a large portion of their brief is devoted to rebutting the rationale of our depreciation argument (Br. 23-29) as though we had applied it to the maintenance expense issue. We have not. Our position on the maintenance expense issue is simply that if property is held for bona fide investment purposes--whether that purpose be to obtain a current yield (e.g., rent) from the property or only to obtain an anticipated gain or profit from the ultimate sale of that property--the deduction is allowable. We contend that the taxpayers here are not entitled to the maintenance expense deduction only because they did not prove a bona fide conversion of their house from personal purposes to an investment purpose.

1. The taxpayers state that the Tax Court concluded that they did not hold their house for any (Br. 9) "'personal, living or family'" use. The quotes are taxpayers' own. Nowhere in its findings or opinion does the Tax Court use such language or otherwise attempt to analyze or come to grips with the distinction between expenses which are personal, on the one hand, and those which are business or investment, on the other. As the Tax Court opinion shows (R. 24-25) and as we pointed out (Br. 13-14), the Tax Court treated this case (mistakenly) as if the issue were identical to that involved in Mitchell v. Commissioner, 47 T.C. 120 (1966). Mitchell, however, involved an abandoned hospital, not an individual's personal residence, which was acquired and held solely for investment purposes. Had the Tax Court taken into account the personal aspects of the transaction involved in this case--the fact that an individual's personal residence

is a personal asset until converted to some other purpose and the fact that the house in this case was held for sale as a consequence of the ordinary personal transaction of changing taxpayers' residence--had the Tax Court focused on those factors, we believe that the result in this case would have been different.[1/]

2. Indeed, the result *was* different when the Tax Court considered the same issue subsequently in the reported court-reviewed decision in *Wilson* v. *Commissioner*, 49 T.C. 406, 407-410, 414-415 (1968). In that case the taxpayers incurred expenses in maintaining their house during the period it was held for sale. Those taxpayers, like these, were able to sell their old house only sometime after they had moved out of it and into their new house. In that case the Tax Court held that the expenses were not incurred in connection with property held for the production of income and disallowed the deductions. In this case, the result should be the same: the deductions should be disallowed.[2/]

1/ Despite taxpayers' attempt throughout their brief to insulate the Tax Court decision from review, this Court is free to undo mistakes of law and clearly erroneous factual findings. The reliance by the taxpayers (Br. 10, 16-17) on the *Dobson* rule to restrict review is curious in view of the fact that Congress overturned that rule years ago. Internal Revenue Code of 1954, Section 7482(a); see also Federal Rules of Civil Procedure, Rule 52(a). Moreover, this Court has taken the position that when the primary facts are not in dispute (as in this case with respect to the fact of taxpayers' move and the placement of their house on the market) that this Court may draw its own inferences from such facts. *McGah* v. *Commissioner*, 210 F. 2d 769 (C. A. 9th, 1954); *Wener* v. *Commissioner*, 242 F. 2d 938 (C. A. 9th, 1957).

2/ The position of the full Tax Court on the issue involved in this case has been set forth in the reported *Wilson* decision. Accordingly, the taxpayers cannot seriously contend that five or possibly six judges of the Tax Court (Br. 18-21) agree with their position or that the weight of case authority (Br. 4) supports their position.

3. The taxpayers refuse to admit that tax treatment differs depending upon whether property is held for a bona fide investment or profit motive or is, instead, simply a personal asset no longer desired for personal use which taxpayers may wish to dispose of. Thus, they argue (Br. 4) that the legislative history of the present Section 212 shows that maintenance expenses can be deducted whenever the income realized on the sale of property would be taxable. In our view, that statute was intended to apply only to property held for a bona fide profit motive. Yanow v. Commissioner, 44 T.C. 444 (1965), affirmed, 358 F. 2d 743 (C. A. 3d, 1966).[3/] It was not intended to allow expense deductions in connection with the casual sale of personal asset such as a taxpayer's personal car, his pleasure boat (May v. Commission 299 F. 2d 725 (C. A. 4th, 1962)), his airplane (Limerick v. Commissione decided June 8, 1950 (P-H Memo T.C., par. 50,144)), or, as we contend here, his former residence. The taxpayer also relies (Br. 12-14, 25) on the allowance of deductions for expenses incurred to minimize a loss in connection with defaulted bonds. The taxpayers, however, ignore the obvious point that bonds are investment property, acquired at the outset with the expectation of gain. That expectations are

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3/ The taxpayers rely (Br. 13) on Doggett v. Burnett, 65 F. 2d 191 (C.A.D.C., 1933) for the proposition that there "need not be any contemplation of a profit." In fact, that case is to the contrary. The court there held that a profit motive is essential for an activity to be characterized as a business. But, it added, the expectation of a profit need not be objective, it may be subjective (p. 194): "The proper test is not the reasonableness of the taxpayer's belief that a profit will be realized, but whether it is entered into and carried on in good faith and for the purpose of making a profit, or in the belief that a profit can be realized * * * ."

disappointed and the bonds turn out to be unprofitable does not change the nature of the property from investment to personal to disallow the taxpayer a tax benefit for expenses incurred in this investment context. Here, on the other hand, the property (taxpayers' old house) was acquired and held in a personal rather than in an investment context. They acquired and held the house for personal reasons--as a residence. That they tried but were unable to sell it until after they had moved out does not change the house to investment property. If they had been successful in selling it when they wanted to, while they still occupied the house, the house would have been a personal asset and they clearly could not have deducted maintenance expenses. That they were unsuccessful and able to sell it only after they had moved out does not change the house to investment property. Finally, unlike the bond example where the loss sought to be minimized by the taxpayer would be deductible--either as a capital or as an ordinary loss depending upon the facts--the loss here would be a non-deductible personal loss, as the taxpayers admit (Br. 34) and as this Court and other courts have uniformly held (Commissioner's Br. 16-17).

4. Throughout their brief (Br. 1, 11-14, 15, 18, 26-27) the taxpayers mischaracterize our position to be that property must be held for rental rather than for sale for it to qualify as property held for the production of income (investment property) within the meaning of Section 212(2). Our position is that the taxpayers may not deduct expenses or take depreciation with respect to a personal

asset unless they show that it has been converted or dedicated to a profit-making or investment purpose. Once property is held for an investment purpose--which may include a holding either to obtain current yield (e.g., rent) or to realize anticipated gain or profit on disposition--the property may be held for the production of income within the meaning of Section 212(2). Here, however, there was no holding for either purpose. The taxpayers were simply attempting to dispose of their former residence, a personal asset. That they happened to move out of it--again for personal reasons--before the sale actually took place cannot change the nature of the property to investment property.

The taxpayers contend that they should be able to obtain deductions not available to homeowners generally because they are in a different economic position. They contend that the taxpayer who is able to sell his old house before he moves into his new house "is relieved of the expense and does not suffer the depreciation that the taxpayers in the case at bar sustained." (Br. 30, see also Br. 28.) Precisely the opposite is true. The timing of the move has no relevance to whether deductible expenses are incurred. The homeowner who sells his house before he moves into a new house may have incurred expenses in connection with the old house to put it into shape or to maintain it; he may have to incur the expense of temporar lodging quarters; he may find it necessary to incur expenses to maintain the new house before he can move into it.

5. In connection with our alternative depreciation argument, the taxpayer mentions (Br. 31) the Commissioner's acquiescence in Mitchell v. Commissioner, 47 T.C. 120 (1966). We also mentioned the acquiescence (Br. 29, fn. 11) and stated that Mitchell was in conflict with our position here respecting the depreciation deduction (Br. 28). Upon further examination, however, we have concluded that neither Mitchell nor the acquiescence are inconsistent with our position in this case. The crucial fact is that Mitchell did not allow depreciation on property held, as in this case, solely for sale. The taxpayer in Mitchell held the property in the hope of profitable sale, but he also explored the possibilities of converting the property (an abandoned hospital) to a motor hotel, an old age home, and also into offices for doctors a home for nurses. (47 T.C., pp. 123-124.) Accordingly, although we disagree with the rationale of the Tax Court in that case (47 T.C., pp. 128-129), we believe that on the facts of that case the result reached--allowing depreciation deductions--was correct. Because an acquiescence by the Commissioner is limited to the result reached, that acquiescence is not inconsistent with the position we are urging in this case.4/

4/ See, e.g., 1966-2 Cum. Bull. 3, where the meaning of an acquiescence is explained as follows:

> Actions of acquiescences in adverse decisions should be relied on by Revenue officers and others concerned as conclusions of the Service only to the application of the law to the facts in the particular case. * * * Acquiescence in a decision means acceptance by the Service of the conclusion reached, and does not necessarily mean acceptance and approval of any or all of the reasons assigned by the Court for its conclusions.

In our main brief we argued that even if the taxpayers' former residence is considered to be held for the production of income for the purpose of Section 212(2), allowance of depreciation deductions would be improper because that property was held only for sale. Whether or not that rationale should be held to apply to any and all property used in a trade or business or for the production of income--a question that need not be decided by this Court--we submit that it should certainly apply in the case of a former residence which is held exclusively for sale. Taxpayers admit (Br. 34) that their old residence does not come within Section 165(c) and that they could not, therefore, deduct a loss incurred on the sale of the house. From this, they argue that it would be unfair to disallow them depreciation deductions. On the contrary, since they admittedly may not obtain tax recognition of the decline in value of their asset directly--i.e., through a loss deduction--they should not be allowed to obtain such recognition indirectly--i.e., through depreciation deductions.[5/]

Respectfully submitted,

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April, 1968.

5/ A depreciation allowance functions as though a "gradual sale" of the asset at a loss were taking place each year it is being used up--to the extent that depreciation is taken as a tax deduction, the cost or other basis of the property is reduced. United States v.
(continued)

CERTIFICATE

I certify that, in connection with the preparation of the brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: ______ day of April, 1968.

____
Attorney

5/ (continued)
Ludey, 274 U.S. 295, 301 (1927). A depreciation allowance thus permits a taxpayer to recover his capital investment in property tax-free. Massey Motors v. United States, 364 U.S. 92, 96 (1960). Cf. Sections 165 and 263. Depreciation is to be distinguished from expenses deductible pursuant to Sections 162(a) and 212. The former represents a decline in the value of assets while the latter, incurred to produce income, do not represent a diminution of the value of the assets resulting in a reduction of their cost basis.

No. 22228

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 22228

MONROE STREET PROPERTIES, INC., an Arizona corporation, Appellant,

v.

ORVILLE S. CARPENTER, TRUSTEE, etc., Appellee

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA

BRIEF FOR APPELLANT

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Phoenix, Arizona 85003

Attorneys for Appellant

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BRIEF FOR APPELLANT

Jurisdictional Statement

Summary Judgment was granted herein in favor of the appellee, defendant in the lower court, and against the appellant, plaintiff in the lower court, on August 11th, 1967, and entered by the Clerk of the Court on August 15th, 1967, the action having been filed in the United States District Court for the District of Arizona. That court had jurisdiction by virtue of the diversity of citizenship between the parties, the fact that the amount in controversy exceeds $10,000.00 and by reason of the provisions of Title 28, U.S.C. [T.R. page 1].

This court has jurisdiction of the appeal by virtue of Title 28, § 1291, U.S.C.

Statement of the Case

Western Equities, Inc., now known as Westec (presently in reorganization in the District Court of the United States for the Southern District of Texas, No. 66-H-62, Orville S. Carpenter, Trustee) did on or about March 27th, 1962, submit an offer in writing, via Union Title Company, to purchase from Monroe Street Properties, Inc., ten (10) first mortgages and notes, having a face value of $1,250,000.00 for $1,000,000.00 of the common capital stock of Western Equities, Inc., now known as Westec, based upon the value of said stock at the closing market price as shown on the American Stock Exchange thirty days prior to the ratification of said written offer. [See Exhibit "A" attached to plaintiff's Complaint, T.R. page 5].

The offer was ratified on March 27th, 1962, and on March 30th, 1962, the parties further implemented their contract, admitted by appellee in its Motion for Summary Judgment, by entering into escrow instructions with Union Title Company, under Escrow No. 115 185, which escrow instructions were annexed to plaintiff's Complaint [T.R. page 8].

By the terms of said escrow agreement, Monroe Street Properties, Inc., was to provide certain items to the escrow agent or stakeholder and appellee was likewise to deposit certain items to the stakeholder, Union Title Company, which was so designated by agreement between the parties. On or about April 10th, 1962, defendant in the court below was informed by a responsible officer, agent and employee of Union Title Company, that Monroe Street Properties, Inc., had performed all of its obligations incumbent upon it under the escrow agreement and that it had deposited the consideration for the contract, *i.e.*, the ten notes and mortgages, which the said Union Title Company would insure in favor of appellee as first mortgage liens. A copy of said notification was annexed to appellant's Response to the Motion for Summary Judgment as Exhibit "A" [T.R. page 101].

Thereafter, on April 11th, 1962, the stakeholder, Union Title Company, again informed appellee in writing that appellant had complied with those provisions of the escrow incumbent upon it and requested that the appellee deposit 252,207 shares of its common capital stock to the escrow, as agreed upon. A copy of said

communication was annexed to the Response to the Motion for Summary Judgment and marked Exhibit "B" [T.R. page 102].

On April 12th, 1962, appellee by and through one of its authorized officers, responded to Union Title Company's demand in writing, informing Union Title Company that according to the contract between the parties, the compliance date for the delivery of the stock was to be the day said stock was approved by the American Stock Exchange to be issued to appellant and that such application was pending. Further, said officer requested the delivery of copies of the mortgages, notes and Memorandum Title Report. A copy of said communication was annexed to the Response to the Motion for Summary Judgment and marked Exhibit "C" [T.R. page 103].

In reply, Union Title Company did, on May 7th, 1962, transmit to Richard B. Snell of the law firm of Snell & Wilmer copies of: (1) the preliminary Title Report with amendment; (2) a copy of the executed escrow instructions; (3) copies of each mortgage, note and assignment and a copy of the original offer to contract. Said communication further informed

appellee's counsel that the M.A.I. appraisal had theretofore been delivered directly to Mr. Lee Ackerman, President of Western Equities, Inc. A copy of said communication was attached to the Response to the Motion for Summary Judgment and marked Exhibit "D" [T.R. page 104].

Thereafter, no further communications were had from appellee. No notice of cancellation of escrow was received; no written rescission of the contract of 27th and 30th March was received, despite demands for the delivery of said stock.

The affidavit of James E. Mack, the then Vice President of Union Title Company, annexed to the Response to the Motion for Summary Judgment [T.R. pages 96 through 100] states that all of the requirements of the Memorandum Title Report could have been fulfilled had the stock been delivered.

On June 27th, 1962, Ira S. Broadman, counsel for appellant at that time, made further demand for the delivery of said stock and offer of tender of performance, a copy of said letter being annexed to appellee's Motion for Summary Judgment and marked Exhibit "B" [T.R. page 52].

Plaintiff filed its Complaint for Breach of Contract on or about the 21st day of October, 1966. Thereafter, various pleadings were submitted to the court, and on March 31st, 1967, defendant in the lower court filed its Motion for Summary Judgment, annexing thereto two affidavits, to wit: the affidavit of Richard Snell and the affidavit of Marie Peipelman and certain exhibits. On May 12th, 1967, plaintiff filed its Response to the Motion for Summary Judgment, annexing thereto the affidavit of James E. Mack and documents referred to in his affidavit.

Hearing was subsequently had on said Motion, and on August 11th, 1967, the trial court granted the same in favor of defendant and thereafter this appeal was perfected.

Specifications of Error

I. The trial court erred in granting appellee's Motion for Summary Judgment in that the pleadings, affidavits, interrogatories, and exhibits of record disclose that material issues of fact exist.

II. The trial court erred in granting appellee's

Motion for Summary Judgment in that by so doing, the court tried disputed issues of fact.

III. The trial court erred in considering the affidavits of Richard Snell and Marie Peipelman in that said affidavits are at best hearsay and opinion documents, contain the affiants' conclusions of law and do not conform with the requirements of Rule 56(e), Federal Rules of Civil Procedure.

IV. The trial court erred in making Findings of Fact and Conclusions of Law and in so doing it found facts not contained in the record, nor accurately represented therein and drew conclusions of law contrary to the decisions interpreting such facts. Rule 56(a), Federal Rules of Civil Procedure.

Argument

I. THE TRIAL COURT ERRED IN GRANTING APPELLEE'S MOTION FOR SUMMARY JUDGMENT IN THAT THE PLEADINGS, INTERROGATORIES, AFFIDAVITS AND EXHIBITS OF RECORD DISCLOSE THAT MATERIAL ISSUES OF FACT EXIST

The gravamen of this appeal is that in view of appellant's contention that material issues of fact exist, which the court cannot determine on a motion for

summary judgment, the trial court erred in granting said motion. Hence, at the outset, it is helpful to concisely review the office of a motion for summary judgment.

Rule 56(c), Federal Rules of Civil Procedure, provides in part:

> " * * * The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that *there is no genuine issue as to any material fact* and that the moving party is entitled to a judgment as a matter of law."
> (Emphasis supplied)

Hence, a motion for summary judgment lies only when there is no genuine issue as to any material fact.

Rule 56 clearly describes the procedure for invoking the rule and sets forth, with clarity, the limitations imposed upon the court in determining such motions. Counsel would recommend to the Court's attention the statement found in 3 Barron & Holtzoff, *Federal Practice and Procedure,* § 1231, page 101:

> "On a motion for summary judgment the court cannot try issues of fact. It can only determine whether there are issues to be tried. * * * Summary judgment is not proper where the material facts are uncertain. It cannot be used to determine questions of fact

> without an adequate and proper hearing. Rule 56 is not merely a directory but affects the substantial rights of the litigants and since it provides a somewhat drastic remedy, it must be used with due regard for its purposes and a cautious observance of its requirements in order that no person will be deprived of a trial on disputed factual issues."

Cases enunciating this theory are legion, and for illustrative purposes, we cite the following: *Jacobson v. Maryland Cas. Co.*, 336 F.2d 72 (C.A. Mo. 1964), *cert. den.* 85 S. Ct. 655; *Technograph Printed Circuits Ltd. v. Methode Electronics Inc.*, 356 F.2d 442 (C.A. Ill. 1966), *cert. den.* 86 S. Ct. 1570; *Short v. Louisville & N.R. Co.*, 213 F. Supp. 549 (D.C. Tenn. 1962).

II. THE TRIAL COURT ERRED IN GRANTING APPELLEE'S MOTION FOR SUMMARY JUDGMENT IN THAT BY SO DOING THE COURT TRIED DISPUTED ISSUES OF FACT

Appellant submits that the learned trial court, in determining appellee's motion, unwittingly perhaps, but nevertheless surely, fell into the trap of "trial by affidavit." A cursory comparison of the affidavits submitted by the parties in support of their respective positions clearly discloses the existence of material

issues of fact. Appellee's position is supported by the affidavit of Richard Snell [T.R. pages 48 to 51] and the affidavit of Marie Peipelman [T.R. pages 61 through 81 inclusive]. Appellant's position is supported by the affidavit of James E. Mack [T.R. pages 91 through 100].

The gist of appellee's motion is that notwithstanding the contract entered into between the parties, it was the opinion of appellee or appellee's counsel that appellant could not perform the duties incumbent upon it pursuant to the contract, which was admitted by the appellee, *i.e.*, the delivery of ten insured first realty mortgages having a face valuation of $1,250,000.00. The reasoning of appellee giving rise to this conclusion stemmed ostensibly from the opinion of the condition of title of Marie Peipelman and the Memorandum Title Report annexed to appellee's Motion for Summary Judgment [T.R. pages 61 through 81]. A careful examination of the Response by appellant to appellee's Motion for Summary Judgment, and the affidavit of James E. Mack [T.R. pages 96 through 100], clearly and unequivocally disputes the factual issue of whether or not appellant could perform its agreement.

It seems apparent that in order for the court below to have granted the motion, as it did, it had of necessity to ignore the Mack affidavit which controverts with particularity the material statements contained in the Snell and Peipelman affidavits.

In his affidavit, Mr. Snell states the following opinions which, for convenience sake, are summarized herein:

1. To his knowledge, none of the requirements contained in the Memorandum Title Report of Union Title Company had been met [T.R. page 49, line 28].

2. Appellant was not in a position to deliver first lien mortgages [T.R. page 49, line 32 through page 50, line 1].

3. By reason of the multiple liens upon the properties, appellant could not in the foreseeable future deliver such first lien mortgages [T.R. page 50, line 1].

4. At no time did Monroe Street Properties tender the first mortgages to appellee or into escrow [T.R. page 50, line 3].

5. Appellant has never been in a position to and ready to consummate the transaction [T.R. page 50, line 7].

6. Mr. Snell, on his examination of the Memorandum Title Report, was of the opinion that merchantable title of first liens on the property was not available to appellant, that appellant would be and was wholly unable to perform [T.R. page 50, line 14].

7. Appellee abandoned the proposal and considered it terminated by mutual agreement [T.R. page 50, line 9].

8. Appellee assumed appellant had repudiated and terminated the contract following June 29th, 1962, in that no further demand was made upon it after that date [T.R. page 49, line 27 through page 51].

The Mack affidavit fully answers the Snell affidavit in the following particulars:

1. On April 10th, 1962, Mack wrote to appellee, informing it that appellant had performed its obligations under the escrow and that upon performance by appellee by the delivery of the stock, Union Title Company would insure the mortgages as first mortgage liens [T.R. page 97, paragraph 4].

2. On April 11th, 1962, escrow officer C. D. Dieckhoff wrote to appellee and informed it that appellant had complied with their portion of the escrow and were calling upon appellee to deliver the shares

of stock [T.R. page 97, paragraph 5].

3. On May 7th, 1962, Mack delivered to appellee's attorney, Richard B. Snell, copies of the Preliminary Title Report, escrow instructions, mortgages, notes and assignments and a copy of the original offer made by appellee [T.R. page 96, paragraph 7].

4. That arrangements had been made for the satisfaction of the various requirements set forth in the Union Title Preliminary Title Report; that numerous items, to Mack's personal knowledge, were to have been satisfied and could have been satisfied without the payment of any consideration whatsoever; as to those requirements which necessitated the payment of monies, that suitable arrangements had been made by Union Title Company and appellant to satisfy said requirements by utilization of the stock to be delivered by appellee [T.R. pages 98 and 99].

5. That in order to satisfy the requirements of the Preliminary Title Report and in order for Union Title Company to issue its policy insuring the mortgages as first lien mortgages, it was necessary for appellee to deliver to the escrow the required shares of stock [T.R. pages 99 and 100, paragraphs 9 through 11].

In Arizona, it is a well established rule that if the vendor in a contract for the conveyance of real estate is able to make a good title at the time he is required to do so under the terms of the contract, he may not only maintain an action at law for damages for a breach by the purchaser, but additionally may compel specific performance, and he is in default under such a contract only when the vendee has performed his part of the contract and made demand for a title which the vendor is unable to furnish. See *Steward v. Sirrine*, 34 Ariz. 49, 267 Pac. 598 (1928); *Walker v. Estavillo*, 73 Ariz. 211, 240 P.2d 173 (1952).

As enunciated in the *Estavillo* case, *supra*, and in quoting the *Steward* case, the Arizona Supreme Court stated:

> "If vendor is able to make a good title at the time stipulated for, he may not only maintain an action at law for damages for breach by purchaser, but may also sue to compel specific performance by the purchaser and recover agreed consideration, *and vendor is only in default when the purchaser has performed his part of the contract and made demand for title which the vendor is unable to furnish.*"
> (Emphasis supplied)

These cases arise where a contract is made for the sale of land which the vendee does not have title

to at the time of the making of the contract and justification for the vendee's breach is sought to be approved by virtue of the lack of title. In *Backman et al v. Park et al,* 157 Cal. 607, 108 Pac. 686 (1910), the court, in quoting from *Joyce v. Shafer,* 97 Cal. 335, 32 Pac. 320, stated:

> "The conveyance by the vendor was not a breach of the contract. One may sell land which he does not own, and yet be able, when the time of performance arrives, to furnish a good title. In the meantime the purchaser would not be at liberty to disaffirm the contract on the ground that then the vendor was unable to make a good title. It would be incumbent on him to offer to perform, or to show that at the time of performance the vendor could not furnish the title."

This principle is applicable on all fours with the issue raised by the appellee in its Motion for Summary Judgment. The parties had a contract for the sale of an interest for realty (mortgages) in exchange for personalty (stock certificates). Perhaps at the time the contract was made, the appellant's title was incomplete in the sense required by the contract. However, the contract did not provide nor oblige the appellant to furnish complete title, as prescribed by the terms of the contract, until such time as the

appellee had tendered the stock (see Exhibit "B" annexed to appellant's Response to the Motion - T.R. 102). In view of the principles hereinbefore cited and applying the same to these facts, it would appear that the status of appellant's title at the time the contract was made, or at any time prior to the date that appellee made a tender of the stock, was immaterial, but that upon such tender it would be incumbent upon the appellant to deliver precisely what the appellee had bargained for. Under the appellee's view of the case, it would relieve itself of the obligations of any contract by *merely assuming* that the other party may not possibly perform, which here, in view of the rules cited, is not a fact necessary to the ultimate recovery by the appellant, that never having been made a requirement by the appellee.

Viewing the documents in support of the appellee's Motion, we find the letter of Ira S. Broadman, dated June 27th, 1962 [T.R. page 52]. This letter clearly and unequivocally invited appellee to place the appellant in a position which would require appellant to deliver the mortgages bargained for. However, based on the opinion of appellee's counsel, as to what the appellant might or might not be able to do in the

future, appellee elected to repudiate the contract at that point rather than to place the appellant in a position where such performance would be required. With respect to this latter point, should the Court construe the appellant's communication as merely an offer of tender, here again such offer was all that was required until appellee itself tendered the stock. In *Glad Tidings Church of America v. Hinkley*, 71 Ariz. 306, 226 P.2d 1016 (1951), the court stated the general rule and the modifications thereof:

> "* * * 'The vendor must tender a deed as a condition to demanding payment of the price, and he cannot, without such tender, declare a forfeiture, or maintain a suit either for the whole price, or for an intermediate installment.' While there is some authority to the contrary, the above appears to be the general rule. *However, we believe that an offer of tender is sufficient in a notice of forfeiture if there is an expression by the vendor in his notice of forfeiture that upon payment by the vendee, the vendor is ready, willing and able to tender and deliver a deed upon receipt of payment. We believe that the general rule as modified by the conditional tender as above stated is the better rule."*
>
> (Emphasis supplied)

There is no doubt in counsel's mind that the Court can almost take judicial knowledge of the fact that in every escrow calling for the conveyance of real property

or interests therein, there are requirements to be met and more often than not, the vendee's compliance is necessary in order for the stakeholder or title company to deliver the vendor's interest in the manner contracted.

In view of the law as above set forth, the trial court actually tried the disputed issues and resolved them in favor of appellee. This it cannot do. Appellant is entitled to a trial on these disputed issues of fact. The court on a motion for summary judgment cannot assume, by weighing the respective affidavits, that appellant could not perform the contract.

III. THE TRIAL COURT ERRED IN CONSIDERING THE AFFIDAVITS OF RICHARD SNELL AND MARIE PEIPELMAN IN THAT SAID AFFIDAVITS ARE AT BEST HEARSAY AND OPINION DOCUMENTS, CONTAIN THE AFFIANTS' CONCLUSIONS OF LAW AND DO NOT CONFORM WITH THE REQUIREMENTS OF RULE 56(e), FEDERAL RULES OF CIVIL PROCEDURE.

The provision controlling the form of affidavits is Rule 56(e), Federal Rules of Civil Procedure, which provides:

> "*Supporting and opposing affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in evidence,* and shall show affirmatively that the affiant is competent to testify

to the matters stated therein. *Sworn or certified copies of all papers or parts thereof referred to in an affidavit shall be attached thereto or served therewith."* (Emphasis supplied)

Firstly, we shall examine the affidavit of Marie Peipelman, which is annexed to appellee's Motion [T.R. pages 61 through 81]. It is fair to characterize her affidavit as a title report, of the type commonly used in real estate transactions in the State of Arizona, in the guise of an affidavit. The affidavit failed to indicate when the examination of title was made and certified copies, as required by Rule 56(e), of the documents referred to in said affidavit were not attached thereto

With due respect to Marie Peipelman's qualifications as a title officer, the entirety of her affidavit still represents at best an opinion on the condition of title and is a hearsay document, replete with conclusions of law.

Secondly, turning to the Snell affidavit, we find this document contains the opinion of its maker, predicated on a knowledge undisclosed and unknown either to the court or to appellant. Snell speaks in his affidavit about examining a Preliminary Title Report rather

than the records themselves, and these records are neither certified nor annexed to his affidavit and made a part thereof. On page 2, line 11 [T.R. page 49], he endeavors to justify the breach of contract by appellee by giving an interpretation of the contract which has yet to be litigated between the parties and is a material issue of fact to be determined --that issue being whether or not appellant could have performed its obligations under the contract calling for concurrent conditions. On line 16 of said page, he expresses an opinion as to what appellant was proposing to do with the stock that appellee failed to deliver to the escrow, which was wholly conjectural on his part.

Thus the affidavit is nothing more than retrospective justification for breach of contract and mere rationalization based upon a subjective hypothesis and clearly in non-conformity with the requirements of Rule 56(e).

In the previous section we have summarized the remaining portions of the Snell affidavit, wherein he discusses appellant's ability or inability to perform and states that the agreement had been abandoned and

terminated. But at no time does Mr. Snell's affidavit set forth the source of his knowledge, which may be opinion, conclusions of law, hearsay or guesswork.

In neither affidavit does appellee show that the affiant is competent to testify to the matters stated in their respective affidavits.

Only minimal citation of authority is necessary for the proposition that under Rule 56(e), *supra,* statements in affidavits as to opinion, belief, or conclusions of law, are of no effect. The same may be said of statements which would be inadmissible in evidence. Hearsay statements contained in affidavits cannot be considered in determining the motion. See *Jameson v. Jameson,* 176 F.2d 58; *State of Washington v. Maricopa County,* 143 F.2d 871; *Transo Envelope Co. v. Murray Envelope Co.,* 227 F. Supp. 240; *Engelhard Industries Inc. v. Research Instruments Corp.,* 324 F.2d 347, *cert. den.,* 84 S. Ct. 1220, 377 U.S. 923, 12 L. Ed. 2d 215; 3 Barron & Holtzoff, *Federal Practice and Procedure,* § 1237.

If the trial court had properly disregarded those portions of the affidavits which fail to comply with Rule 56(e), clearly the meat of the nut would be gone

and all that would be left would be a shell which, standing alone, could by no stretch of the imagination, support the granting of the Motion for Summary Judgment.

IV. THE TRIAL COURT ERRED IN MAKING FINDINGS OF FACT AND CONCLUSIONS OF LAW AND IN SO DOING IT FOUND FACTS NOT CONTAINED IN THE RECORD, NOR ACCURATELY REPRESENTED THEREIN AND DREW CONCLUSIONS OF LAW CONTRARY TO THE DECISIONS INTERPRETING SUCH FACTS. RULE 56(a), FEDERAL RULES OF CIVIL PROCEDURE

In the instant case, the trial court made Findings of Fact and Conclusions of Law and entered Judgment [T.R. pages 148 through 156]. Preliminarily, it is of interest to note that Rule 52(a), Federal Rules of Civil Procedure specifically states as follows:

> "Findings of fact and conclusions of law are unnecessary on decisions of motions under Rule 12 or 56 . . . ."

In 2B Barron & Holtzoff, *Federal Practice and Procedure*, § 1125, the authors discuss the reason for the rule which makes finding unnecessary on motions for summary judgment. Their statement is especially applicable to the case at bar:

> "If the facts are so complicated that inconsistent inferences may reasonably be drawn therefrom, the case is hardly suitable for determination on a motion for summary judgment."

It should be further noted that neither party requested Findings of Fact and Conclusions of Law and that the same was done only upon the court's motion.

It would serve no useful purpose for appellant to itemize the court's Findings and the Objections thereto. The appellant filed Specific Objections to the appellee's Proposed Findings of Fact and Conclusions of Law [T.R. page 131] as well as its own Proposed Findings of Fact and Conclusions of Law [T.R. page 139].

The Findings of Fact and Conclusions of Law approved by the trial court are but a blanket endorsement of the statements contained in appellee's affidavits and exhibits and totally disregard the Mack affidavit and exhibits attached thereto.

If this case is so complicated that the court determined that Findings of Fact and Conclusions of Law were necessary, then, as stated in 2B Barron & Holtzoff, *Federal Practice and Procedure*, § 1125, it is "hardly suitable for determination on a motion for summary judgment."

Conclusion

The trial court in granting appellee's Motion for Summary Judgment subverted the purposes of Rule 56 in that it actually tried, on the merits, disputed material fact issues when it should only have determined whether or not material issues of fact existed. The affidavits, exhibits, and answers to interrogatories show the existence of material issues of fact, and once shown, the court must deny the motion.

In view of the foregoing, appellant respectfully requests that the judgment of the United States District Court for the District of Arizona, be reversed.

Respectfully submitted,

KANNE, BICKART & CROWN

By /s/ Allen B. Bickart

Allen B. Bickart
1118 Arizona Title Building
Phoenix, Arizona 85003
Attorneys for Appellant

Certificate

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ Allen B. Bickart

Allen B. Bickart

No. 22228

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

MONROE STREET PROPERTIES, INC., an Arizona corporation, Appellant, vs. ORVILLE S. CARPENTER, TRUSTEE, etc., Appellee.	Appeal from the United States District Court for the District of Arizona

BRIEF OF APPELLEE

MARK WILMER
SNELL & WILMER
Attorneys for Appellee

INDEX

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BRIEF OF APPELLEE

STATEMENT OF THE CASE

Appellant's Statement of the Case is reasonably accurate but it is incomplete. The offer made by Western Equities of March 27, 1962, (Exhibit A to the Complaint T.R. 5) was expressly conditional:

"This offer is subject to:

* * * * * *

(2) Verification by Union Title Company that the ten first mortgages on the above described property are valid first mortgages * * *

* * * * * *

(5) The Western Equities, Inc. stock shall be taken as investment stock without plans for redistribution * * *

(8) Sellers hereunder shall provide, at their expense, a Title Insurance policy in favor of Western Equities, Inc. with a face amount of not less than One Million ($1,000,000.00) Dollars."

The escrow referred to by appellant (Exhibit B to the Complaint T.R. 8) was conditioned as was the offer, except that item (8) above was not repeated.

The letter of April 10, 1962, (T.R. 101) signed by James E. Mack as Vice President of Union Title Company says only that the notes and mortgages have been deposited in escrow and that " * * * upon the performance by Western Equities, Inc. of all its obligations, in accordance with the escrow terms, we will issue our endorsed title insurance policies insuring each of the mortgages described therein as first lien mortgages."

This does not constitute "verification" that these mortgage liens would be first liens and indeed, such could not be verified.

On May 7th, 1962, pursuant to request, Union Title Company forwarded to Attorney Richard B. Snell, Attorney for Western Equities, Inc., its preliminary title report. A verified copy of this title report was attached to the affidavit of Richard B. Snell which was a part of appellee's Motion for Summary Judgment as Exhibit A. (T.R. 42 et seq.) This report was made as of April 24, 1962.

From this preliminary title report it appeared that the various parcels of real property were, inter alia:

1. Subject to a mortgage to Phoenix Downtown Parking Association, Inc.

2. Subject to a mortgage to General Trust Corporation.

3. Subject to a mortgage to Gilbert & Sullivan Mortgage Company.

4. Subject to a mortgage to Blaine B. Shimmel.

5. Subject to a mortgage to Jefferson Standard Life Insurance Company.

6. Not even then owned by the purported mortgagor.

7. Subject to an attachment by the First National Bank of Arizona.

This was the only "verification" that the liens would be first liens ever tendered to Western Equities by appellant or upon its behalf.

The letter of Ira Broadman, as attorney for appellant of June 27th, 1962 (Exhibit B, Motion For Summary Judgment, T.R. 42, et seq.) which stated that the appellant "had fully complied with the terms of the escrow" set a deadline of June 29, 1962 for Western Equities to surrender over to Union Title Company $1,000,000.00 worth of its stock or " * * * we will necessarily conclude that your failure to deliver constitutes a repudiation of the contract * * * "

As a part of appellee's Motion for Summary Judgment an affidavit of Marie Peipelman, Senior Title Officer of Transamerica Title Insurance Company, was attached to the motion. On the hearing May 29, 1967, the title reports upon which this affidavit was based were admitted in evidence by stipulation as Exhibit A. (Transcript May 29, 1967 hearing, p. 8)

This affidavit and the title reports showed the condition of the title of the property to be mortgaged as of March 28, 1962, the date of the contract, July 2, 1962 (two days after the Broadman deadline), and March 7, 1967 (current ownership). Without burdening the Court with a recitation of the many liens and clouds upon the property, it is sufficient to say that as to both March 28, 1962, and July 2, 1962, the title was in a hopeless mess and appellant could under no circumstances have performed. Some of the lots were not even owned by appellant. Seven of the parcels were in a mortgage foreclosure suit in Maricopa County to satisfy a $225,000.00 indebtedness and all were heavily further encumbered.

This affidavit and title report also disclosed:

(a) That on May 31, 1962 Metropolitan Trust (the mortgagor under the March 27, 1962 contract mortgaged several of

the parcels to J. L. Wright and Orvel M. Johnston for $175,000.00 and that this mortgage was foreclosed on October 26, 1965.

(b) Metropolitan Trust mortgaged parcels of this property to James R. Burger and Nellie Jean Burger, his wife, for $40,500.00 April 9, 1964.

(c) Metropolitan Trust mortgaged parcels of this property to Continental Fidelity Company for $36,500.00 January 10, 1963.

(d) Metropolitan Trust mortgaged parcels of this property to Southland Management Ltd. for $500,000.00 June 11, 1964.

(e) Metropolitan Trust mortgaged parcels of this property to E. D. Tway for $50,000.00 April 9, 1964.

The record also discloses most of the same encumbrances and clouds (including no ownership) as appeared as of July 2, 1962, were still burdening the property.

Inasmuch as appellant assigned as error the consideration of this affidavit (Marie Peipelman) as "hearsay and opinion documents * * and do not conform with the requirements of Rule 56(e) Federal Rules of Civil Procedure" (Specification of Error III, p. 7 App. Op. Br.) and has argued the point (p. 18 et seq. App. Op. Br.), a further statement outlining the matter before the District Judge to be considered by him, by stipulation of counsel for appellant, is required.

On February 28, 1967, appellee served and filed certain interrogatories upon appellant. (T.R. 16) Among them were the following:

"4. Please state the assets owned by Monroe Street Properties, Inc. on March 27, 1962 and continuing through July 1, 1962.

"5. Please state the obligations, contingent or liquidated, which were owed by Monroe Street Properties, Inc. on the dates March 27, 1962 through July 1, 1962.

"6. Please state the obligations against each of the parcels of real property described in plaintiff's complaint and which were alleged to have been the subject of a first mortgage to be sold to Western Equities, Inc. including whether or

not the same was delinquent and if secured by liens, please state the names of the lienor, the lienee and other factors disclosing the amount and character of the indebtedness against each of said properties.

"7. If the obligations and liens against each of said lots appeared of record as prior to the lien of the mortgage proposed to be sold to Western Equities, Inc., please state the source of the funds to be used by Monroe Street Properties, Inc. in discharging such prior lien."

On March 15, 1967, appellee's counsel wrote appellant's counsel advising that answers were past due and requesting an early response. On April 18, 1967, appellee again reminded appellant that the answers were long past due. On May 15, 1967, appellee filed a Motion to Require Answers to Interrogatories to which copies of the two letters above were attached. (T.R. 20) This was the date set for hearing appellee's Motion for Summary Judgment and the continued default by appellant in answering the interrogatories made it necessary that appellee request a continuance of the hearing until the answers had been filed, since certified copies of the documents referred to in the Peipelman affidavit were not attached to the motion as required by Rule 56(e) Federal Rules of Civil Procedure. (Transcript Hearing May 29, 1967, p. 8; Hearing July 27, 1967 p. 3 et seq.) The interrogatory in question 6 required plaintiff to state the liens, etc. against each parcel of property which was to be mortgaged to obviate the necessity for obtaining the great number of certified copies which would be required for a literal compliance with Rule 56(e).

The Court continued the Summary Judgment Motion to May 29, 1967 and ordered "that counsel for pltf. file answers to the interrogatories fully and completely and under oath according to Rule 33, FRCP." (Docket entry, May 15, 1967. T.R. 166, 167)

On May 29, 1967, the answers were still not filed. The Court ordered "You (Bickart) answer the interrogatories by three o'clock this afternoon. We'll clear the record and hear this matter then."

At three o'clock the following proceedings were had. (Quoted in part. See Transcript of May 29, 1967, hearing)

"THE CLERK: Civil No. 6151, Monroe Street Properties vs. Orville S. Carpenter, Trustee for the Reorganization of Westec Corporation, for hearing of pending motions.

"MR. WILMER: If it please the Court, there are a couple of preliminary matters.

"Counsel has handed me proposed answers to interrogatories, on the basis that they will be signed. I understand counsel will agree that the report of Marie Peipelman as to the condition of the title on the three dates shown is accurate. He does not agree, however, as to my statement this morning as to when the closing date was.

"MR. BICKART: Well, Mr. Wilmer, let me make myself clear.

"As I read the affidavit of Marie Peipelman, besides the recitation of her finding certain encumbrances and liens at varying times during her searches, there are other matters contained in the affidavit, matters of opinion. And my understanding with Mr. Wilmer is that I am agreeable for the purposes of the presentation of this motion that on certain dates there were given encumbrances against the properties, some of which were contained in Miss Peipelman's affidavits, some of which were contained in Exhibit A attached to this motion, and also referred to in the responsive affidavit of Mr. Mack, in response to his motion.

"MR. WILMER: Are you agreeable, Mr. Bickart, to my filing the title report itself with respect to these three dates?

"MR. BICKART: In lieu of certified copies, do you mean?

"MR. WILMER: Yes.

"MR. BICKART: I would have no objection to them, if I were provided copies of them in advance.

"MR. WILMER: Well, I offered them to you this morning Mr. Bickart.

"MR. BICKART: Yes. I said I would like to see copies of them.

(Handed to counsel)" (pp. 4 and 5, Transcript. May 29, 1967, hearing)

"THE COURT: Don't they show actually the record of the

title of the properties up to the time the cause of action arose or was instituted?

"MR. BICKART: Certain of the reports at various times do show the status of the title of the property at the time of the contract in question.

"The memorandum report attached to Mr. Wilmer's motion, marked Exhibit A, does that. We have no argument with that, as a memorandum of title report.

"THE COURT: I take it the title reports are in support of that.

"MR. WILMER: Your Honor, the title reports are of three dates: March 28, the date the letter was signed; July 2 of the same year, which is about two days after the letter from Mr. Broadman demanded compliance on the part of Western Equities, showing the title as of that date; then also the title as of today and another as of two months ago. We don't ask counsel to stipulate other than that. As a factual matter, these are the true facts as to the title; as to its relevancy and materiality, that's a matter of argument.

"MR. BICKART: That's a matter of evidentiary properness to be determined by the Court. I would stipulate that they are matters of record, to avoid the necessity of certified copies having to be provided in accordance with the rule.

"THE COURT: Very well, they may be received." (pp. 7 and 8, Transcript May 29, 1967, hearing.)

Prior to presentation of argument on the Summary Judgment Motion these further proceedings were had. (pp. 8, 9 Transcript May 29, 1967 hearing):

"MR. WILMER: There is one other matter, with respect to the proposed answers to the interrogatories, there is presently a motion pending to require full and complete answers to the interrogatories. We would ask the Court to continue that motion for a couple, three weeks, to see if it is needed that we insist that there be full and complete answers. It may be that is not required, if in fact other matters are available.

"THE COURT: No objection to continuing that, I take it?

"MR. BICKART: I don't understand, which motion?

"MR. WILMER: The motion to require—complete answers to the interrogatories heretofore filed.

"MR. BICKART: Fine. No objection.

"MR. WILMER: Then I take it we may present the matter as if these had been signed for?

"MR. BICKART: Yes. You mean the proposed answers that I gave you?

"MR. WILMER: Yes.

"MR. BICKART: Yes, and those we submitted.

"THE COURT: That motion may be continued to June 26."

On June 26, 1967, the motion was continued to July 3, 1967. (Docket entry June 26, 1967, T.R. 166, 167)

On June 27, 1967, appellant's counsel filed an affidavit stating in effect that he had answered the interrogatories June 1, 1967, and "that said Motion is now moot." (T.R. 24)

On June 30, 1967, counsel for appellee wrote appellant that he did not agree and that he proposed to present the Motion the following Monday. On Monday, July 3, counsel for appellant did not appear and, after hearing counsel for appellee, Judge Craig ordered: (Docket entry, July 3, 1967, T.R. 167)

"It is ordered that counsel for pltf secure and file with this court answers to the interrogatories heretofore propounded by the defts and that such answers be with particularity and that they be filed with this Court not later than Monday, July 17, 1967. Failure to comply with this order will result in an order granting motion for summary judgment forthwith."

Appellant was promptly notified of the order. (T.R. 34 et seq.)

The interrogatories as filed and the answers as filed June 1, 1967, are set forth in Appendix A hereto.

On July 5, 1967, appellant filed a "Motion to Vacate Order Requiring Full Answers to Interrogatories." (T.R. 28) A Response thereto was filed by appellee, citing the record as demonstrating that appellant's representations to the Court as to what the record was, were untrue and pointing out with particularity wherein the answers as filed were wholly inadequate. (T.R. 34)

These motions came on for hearing July 25, 1967. Appellant did not then ask for further time to answer the interrogatories and had made no effort to comply with the Court's Order of

July 3, 1967. After hearing the parties at some length the Court denied the Motion to Vacate its Order of July 3, 1967 and granted appellee's Motion for Summary Judgment. (Transcript July 25, 1967, hearing p. 15) The Court ordered Findings of Fact and Conclusions of Law and thereafter amended the Findings and Conclusions proposed by appellee and entered its Findings of Fact and Conclusions of Law August 11, 1967, and on August 15, 1967 the Clerk entered Judgment dismissing appellant's Complaint on the merits.

REPLY TO ARGUMENT UPON SPECIFICATIONS OF ERROR I AND II

> "I. The trial court erred in granting appellee's Motion for Summary Judgment in that the pleadings, affidavits, interrogatories, and exhibits of record disclose that material issues of fact exist."

> "II. The trial court erred in granting appellee's Motion for Summary Judgment in that by so doing, the court tried disputed issues of fact."

Appellant overlooks or ignores the requirement of Rule 56(c) Federal Rules of Civil Procedure that the fact issue which denies the Court power to enter summary judgment must be as to a *material* fact.

There is no dispute in the record as to the following *material* facts.

1. Union Title Company did not (and could not) verify to Western Equities that the liens were or would be "first mortgage liens." While Mr. Mack wrote on *April 10th* that Union Title would insure the liens as first liens, the preliminary title report from Union Title reporting on the state of the title to these parcels as of *April 24, 1962* showed the property hopelessly encumbered and that in fact some of it was not even owned by Metropolitan Trust (the proposed mortgagor) or Monroe Street Properties.

2. Monroe Street Properties owned no assets other than these

ten notes and mortgages. (Answer to Interrogatory 4, of Interrogatories filed February 28, 1967. (T.R. 18)

3. Monroe Street Properties did not loan any money or give other consideration to Metropolitan Trust for the notes and mortgages—it was simply a paper transaction. (Answer to Interrogatory 2, Interrogatories to plaintiff (Set 2) (appellant) filed July 10, 1967. T.R. 115)

4. Despite the fact that the stock of Western Equities was to be taken as "investment stock" appellant intended to utilize this stock to acquire title and to clear liens, etc. from the property.

> "***as to those requirements which necessitated the payment of monies, that suitable arrangements had been made by Union Title Company and appellant *to satisfy said requirements by utilization of the stock to be delivered by appellee.*" (Emphasis added) (App. Op. Br., p. 13)

5. Appellant did not and could not tender into escrow the first lien mortgages required before demanding performance by appellee.

6. Subsequent to its demand for performance by Western Equities, Monroe Street Properties did not either sell the notes and mortgages for the account of Western Equities to establish its loss or hold said notes and mortgages to maintain its ability to perform.

7. The mortgages from Metropolitan Trust to Monroe Street Properties were never recorded and Metropolitan Trust mortgaged the properties to other mortgagees.

8. As of March 7, 1967, the properties were owned by Union Title Company, as trustee, *in Receivership*. Southwest Savings & Loan Association and C. C. Fabric and Ann D. Fabric, his wife.

8. After the Broadman letter of June 27, 1962, demanding performance by Western Equities by June 29, 1962, appellant made no further effort to consummate the agreement and no demand for performance or claim of right to damages until this suit was filed October 21, 1966, about three and one half weeks after the Reorganization Proceedings in the Federal Court at

Houston, Texas had placed Western Equities (Westec) in Trusteeship.

9. If the properties to be mortgaged were in fact worth $1,625,000.00 as required by the contract and the purchase price for $1,250,000.00 face value of first mortgage lien notes was only $1,000,000.00 appellant suffered no damage or loss.

The assumption by appellant that promissory notes secured by a realty mortgage under Arizona law amount to an interest in real property is unwarranted by Arizona decisions. This asssumption failing, appellant's whole case fails, for appellant rests its entire argument upon the principle that *a vendor of real property* may perfect title any time prior to conveyance.

In *Steinfeld v. State,* 37 Ariz. 389, 294 P. 834 (1930), the Arizona Supreme Court, in considering the relative interests possessed by a mortgagee and mortgagor in realty for the purposes of real property taxation, held that property is to be assessed to the legal owner at its full cash value regardless of whether it is subject to an encumbrance. In that case the Court stated:

> "It is the well-settled rule of law in many jurisdictions, among them being Arizona, that a mortgage is not a conveyance, and neither the legal nor equitable title passes to the mortgagee. *On the contrary, it is nothing but a lien for the security of money or some other condition,* and the title to the property remains in the mortgagor until foreclosure. . . .
>
> " . . . [I]f there should be an attempt to tax the mortgagee's interest, the latter tax would not be on the land, but on the debt. (Territory v. Delinquent Tax List, 3 Ariz. 179, 24 P. 182.) . . .
>
> "*The position of the state would be strong were a mortgage held to create an interest in the land itself, or were only the equity of the mortgagor assessed to him. As we have pointed out this is not true in Arizona.* The tax is assessed on the theory that the entire interest in the land belongs to the Mortgagor and not to the mortgagee, and that the mortgage can only be taxed, if at all, as a debt, and that *its situs for taxation is not where the land lies. but in the personal residence of the mortgagee. . . .*" 294 P. at 836 (Emphasis added.)

In *Mortgage Investment Co. v. Taylor,* 49 Ariz. 558, 68 P.2d 340 (1937), the Arizona Supreme Court stated:

> " . . . The title to mortgaged property under our law remains in the mortgagor. The mortgagee's interest is that of a lienor." 68 P.2d at 342

In *Howell v. Wetzler,* 32 Ariz. 130, 256 P. 365 (1927), the Arizona Supreme Court reversed a foreclosure judgment on the grounds that the judgment was erroneous as being conditional and unjust in view of the improbability, of the circumstances therein considered, of anyone bidding on the land. In that case the Arizona Court set forth the above stated rule:

> "Under our law a mortgage is only a lien on the property mortgaged. The title remains in the mortgagor, and upon default the remedy is foreclosure and sale under special execution. . . ." 256 P. at 366

It is clear therefore that certain well recognized rules governing sales of personal property are applicable. They are as follows.

AS A CONDITION PRECEDENT TO MAINTAINING AN ACTION FOR DAMAGES FOR THE BUYER'S BREACH, THE SELLER MUST SHOW PERFORMANCE ON HIS PART OR A PRESENT ABILITY AND READINESS TO PERFORM.

The general rule is set forth in 78 C.J.S., *Sales* § 463, p. 114, as follows:

> "In order to maintain an action for damages for a breach of the contract of sale by the buyer, the seller must show either a performance on his part or an offer to perform, or at least an ability and readiness to perform, or a valid excuse therefor; and it has been held that the seller's failure to perform substantial terms of the contract bars his recovery, even though the buyer's refusal to accept was due to other causes."

In *Vidal v. Transcontinental & Western Air, Inc.,* 120 F.2d 67 (3d Cir. 1941), a buyer under a contract for the sale of used airplanes brought an action for damages alleging breach of the contract by the seller. The seller notified the buyer that the airplanes would be delivered on a certain date and the evidence established that the seller was ready and able to perform as

promised. The buyer did nothing to complete the transaction, did not tender payment on any or all of the machines nor did he request delivery. The lower court entered judgment dismissing the complaint and the judgment was affirmed on appeal. The third circuit held that it was the buyer's duty to make some offer of performance to put the seller in default before the buyer could sue the seller for breach of the contract. The Court stated:

> " . . . Has either a right against the other? Payment and delivery are concurrent conditions since both parties are bound to render performance at the same time. Restatement, Contracts, § 251. *In such a case, as Williston points out, neither party can maintain an action against the other without first making an offer of performance himself.* Otherwise, if each stayed at home ready and willing to perform each would have a right of action against the other. ' * * * to maintain an action at law the plaintiff must not only be ready and willing but he must have manifested this before bringing his action, by some offer of performance to the defendant. * * * It is one of the consequences of concurrent conditions that a situation may arise where no right of action ever arises against either party * * * *so long as both parties remain inactive, neither is liable* * * * ' It is not an unfair requirement that a party complaining of another's conduct should be required to show that the other has fallen short in the performance of a legal obligation.
>
> " * * * It was the duty of the buyers to make some offer of performance in order to put the seller in default." 120 F.2d at 68 (Emphasis added.)

In *Myers v. Anderson,* 56 P.2d 37, (98 Colo. 394 1936), a seller under a contract for the sale of milk was not permitted to recover damages for breach of the contract where the seller had not shown performance on its part. In that case the seller had not complied with the provision of the contract that a certain *quality* of milk be delivered to the buyer. In holding that the seller's noncompliance with the contractual requirement of quality barred its right to recover damages, the Colorado Court stated:

> " . . . By the contract (the buyer) was not bound to receive and be obligated for milk that later proved to be below the

standard of quality for which he had contracted to pay. It would seem that before (the seller) can be permitted to recover, *he must show a substantial compliance with the contract,* and when, as here, while acting under it, he breached one of its most important provisions, namely, as to the quality of the milk, then (the buyer) rightfully could rescind and decline to accept any further deliveries . . . *in our judgment the uncontradicted evidence discloses that (the seller) failed to comply with the terms of the contract: that on account thereof (the buyer) was relieved therefrom; . . .*" 56 P.2d at 39 (Emphasis added.)

In *Erb v. Flower,* 56 Cal. Rptr. 612 (1967), the California Court of Appeals held that where a seller under an executory contract has rendered himself unable to perform he cannot complain of the buyer's repudiation and cannot recover damages for the buyer's breach if the seller is not able and willing to perform according to the contract.

The Court said:

"' . . . Hence appellant, by its own hand, put it beyond its power to perform its obligations under the contract. *When a vendor under an executory contract has rendered himself unable to perform, he cannot complain of the vendee's repudiation, and cannot recover upon his offer of performance if he is not able and willing to perform according to the offer.*'" 56 Cal. Rptr. at 613

In *Alexander Kerr & Co. v. Fooks,* 145 F.Supp. 503 (D.C.W.D. Ark. 1956), the United States District Court for the Western Division of Arkansas held that a bottle manufacturer who was clearly unable to perform its obligations as seller under a contract of sale by a specified date, was in no position to complain of the buyer's breach. The Court stated:

"The action of defendant in stopping manufacture of the bottles on July 13, 1953, was a breach of the contract on defendant's part. However, there are two reasons which prevent plaintiff from taking advantage of this breach . . . *Secondly, it would have been impossible for plaintiff to fully perform its part of the contract by July 15, and thus it was in no postion at*

that time to complain of plaintiff's breach." 145 F. Supp. at 511 (Emphasis added.)

See also *Conrad v. Verdusco,* 298 P.2d 638 (Cal. App. 1956).

WHEN AGREEMENT TO PURCHASE IS CONDITIONED UPON FACTS BEING MADE APPARENT TO THE PURCHASER, SUCH CONDITIONS MUST BE MET BEFORE ANY OBLIGATION ARISES UPON THE PART OF THE PURCHASER TO PERFORM.

In 46 Am. Jur., *Sales* § 203, p. 386, the above rule is stated as follows:

> "Performance, or at least an offer or tender of performance, of conditions in a sales contract by the party upon whom the obligation of performing such conditions rests is essential to put the other party in default, in the absence of anything to show waiver of such performance or tender of performance. To put a buyer in default, the seller *must perform or tender performance of conditions.* Where delivery and payment are concurrent conditions, the seller must deliver or tender delivery, in order to obtain a right of action against the buyer. . . . " (Emphasis added.)

In *Canyon State Canners v. Hooks,* 74 Ariz. 70, 243 P.2d 1023 (1952), the Arizona Supreme Court considered the rights of a seller upon breach of a contract for the sale of potatoes. Under the provisions of the contract involved therein, the plaintiff was to appropriate potatoes to the contract and to store them in a designated area until hearing further from the defendant. The Court held that this constituted a constructive delivery and hence, upheld the seller's claim for damages. However, the Court stated:

> " . . . Defendant contends that delivery of the goods and payment are concurrent conditions and if no delivery is made there is no right of action for breach of contract. Sec. 52-542, A.C.A. 1939. While that is a correct statement of the law, it is not applicable because of the evidence in this case . . . Actual delivery here would have been an unnecessary condition since by defendant's agent's own acts, constructive delivery was had." 243 P.2d at 1025, 1026

In *Alaska Airlines v. Molitor,* 285 P.2d 893 (Wash. 1955),

a seller brought an action for recovery of the purchase price upon a contract for the sale of buildings. The contract provided: "If seller is unable to transfer clear title to the property subject to this agreement, within 90 days following the execution of this agreement, then buyer may at his option, declare this agreement cancelled." The plaintiff was notified by the Internal Revenue Service that the sum of $22,500.00 was required to release tax liens on the property. *Plaintiff intended to satisfy the tax liens out of the proceeds of the sale.* Upon notifying defendants of this fact, defendants refused to pay any more funds into escrow and demanded that plaintiff make a showing of its ability to transfer clear title to the property within the period required by the contract. In holding that the seller had not performed its obligations under the contract, the Washington Court stated:

> "Appellants contend the trial court erred in finding that respondent's tender of title complied with the terms of the contract. We agree. *This gave appellants a right to cancel the contract, which they did.*" 285 P.2d at 895 (Emphasis added.)

IF SUBSEQUENT TO A CLAIMED BREACH OF A PURCHASE AGREEMENT BY THE PURCHASER, THE SELLER THEREAFTER DEALS WITH THE PROPERTY THE SUBJECT OF THE SALES AGREEMENT AS HIS OWN AND TREATS THE SALES AGREEMENT AS RESCINDED, SUCH SELLER CANNOT THEREAFTER ELECT TO REINSTATE THE SALES AGREEMENT, AFTER TAKING THE BENEFIT OF SUCH SUBSEQUENT DEALINGS AND SUE THE PURCHASER FOR DAMAGES ON THE SALE PRICE.

Each of the parties to the March 27, 1962, agreement treated the same as rescinded and avoided from June 29, 1962, until the filing of the present lawsuit by plaintiff on October 21, 1966. By failing to record the mortgages and by permitting Metropolitan Trust to subject the property to encumbances as shown by the Peipelman affidavit, appellant became wholly disabled from making a valid tender of said notes and mortgages.

It is fundamental that an unpaid seller of personal property

in which the property has not passed to the buyer, may resell the property for the account of the original buyer or may retain the goods and bring an action for damages. If the latter remedy is elected, the seller must tender performance of all obligations under the contract, as is more fully set forth above. In the instant case, the seller elected to pursue neither remedy upon discovery of the alleged breach, and to the contrary, treated the agreement as abandoned for a period of five years. The seller impliedly abandoned the contract by engaging in conduct inconsistent with the contract rights which are now asserted, and it acquiesced in the repudiation of the contract by the buyer resulting in an abandonment of the contract or implied mutual rescision thereof.

The above rule is set forth in 17 A C.J.S., *Contracts* § 389, p. 467 as follows:

> "While a mere breach of contract by one party is not an offer to rescind, the repudiation of the contract by one party may be treated by the other party as an offer to rescind, upon which he may act, and the latter's acquiescence in the repudiation may result in a rescission of the contract by mutual consent. *So a contract will be treated as abandoned where the acts of one party inconsistent with its existence are acquiesced in by the other. . . .*" (Emphasis added.)

The abandonment of a contract for the sale of property, real or personal, has been found to exist in several cases where the parties thereto, after entering into the agreement of sale, perform acts which are inconsistent with the rights vested in them under the contract.

The above rule was applied by the Arizona Supreme Court in *Mason v. Hasso,* 90 Ariz. 126, 367 P.2d 1 (1961). In that case the purchasers of real property under a contract of sale brought an action to quiet title to the property. The purchasers paid \$100.00 of a \$500.00 down payment, but failed to pay the balance due on the down payment and failed to pay subsequent annual installments under the contract or to pay taxes or interest. Further, the purchasers wrote a letter to the vendors approximately one

year after the date of the contract, stating that they were unable to go through with the deal. The Court held that upon those facts the purchasers had unambiguously abandoned the contract which thereafter was no longer in full force and effect. The Court stated:

> " . . . Abandonment means the act of intentionally and voluntarily relinquishing a known right absolutely and without reference to any particular person or purpose. 1 Am. Jur. Abandonment, § 1, p. 4. Forfeiture is distinguished from abandonment in that it is enforced and involuntary and occurs without regard to intention. In the case of Gila Water Co. v. Green, 29 Ariz. 304, 241 P. 307, 308, this Court held:
>
> > " ' * * * There is a plain, fundamental distinction between an abandonment and a forfeiture. While to create an abandonment there must necessarily be an intention to abandon, yet such an intention is not an essential element of forfeiture in that there can be a forfeiture against and contrary to the intention of the party alleged to have forfeited.'
>
> "On this same subject in the case of City of Tucson v. Koerber, 82 Ariz. 347, 313 P.2d 411, 418, we stated:
>
> > " ' * * * *Abandonment involves an intention to abandon, together with an act or an omission to act by which such intention is apparently carried into effect,* * * * ' " 367 P.2d at 3 (Emphasis added.)

The Court continued:

> "Contra to appellants' contention as evidence by item (3) in their assignment of error abandonment requires no act of the other party before it is complete. It is entirely unilateral and the moment the intention to abandon unites with acts of relinquishment, the abandonment is complete. Hull v. Clemens, 200 Or. 533, 267 P.2d 225. Appellants' contention that an abandonment by the purchaser cannot be effective until the vendor elects to accept it as [sic] contrary to the holdings of this Court in the cases of Gila Water Co. v. Green, supra, and City of Tucson v. Koerber, supra." 367 P.2d at 4

In *Twyford v. Twyford,* 243 S.W.2d 930 (Ky.App. 1951), an action was brought by a purchaser for specific performance of a contract for the sale of realty. In affirming the judgment of the trial court which denied specific performance on the ground

that the purchaser had abandoned the contract, the Kentucky Court of Appeals stated:

" * * * But the law of the case is applicable here. It is, briefly stated, that abandonment of such a contract may be inferred from circumstances or conduct inconsistent with an intention to perform; that equity will not permit a party to sleep over his rights to the prejudice of another on whom he makes claim, and that he must make a demand within a reasonable time for performance. More specifically it is written, 'A purchaser may not lie by and lead the other party to believe that he has abandoned the contract, and then, when the land has increased in value 20 times, claim the benefit of the contract he decided not to claim before the land rose in value.' * * * " 243 S.W.2d at 933

In *Nelson v. Cross,* 152 Neb. 197, 40 N.W.2d 663 (1950), the Supreme Court of Nebraska affirmed the judgment of the trial court which denied specific performance of a contract for the sale of realty. In holding that the contract had been abandoned by the parties, the Court stated:

" * * * After he obviously knew of Scoville's determination not to perform, plaintiff acquiesced in that decision by not demanding possession or rents during the almost five-year period that elapsed between the signing of the contract and the institution of this action. Clearly if the contract was in force, plaintiff was entitled to possession and rents from the land during Mr. Scoville's life and thereafter—and yet it affirmatively appears that he took no action to collect and did not even claim these rights during that period. The retaining of rents and possession by Mr. Scoville and later by the executor of his estate was clearly inconsistent with material provisions of the contract, and just as clearly plaintiff acquiesced in those acts.

* * * * * *

"We think it clear and without material dispute that this contract was abandoned by the parties in the early months after its execution, and that accordingly the trial court did not err in denying specific performance. We deny it here." 40 N.W.2d at 666-67

In a syllabus by the Court the applicable rule was stated as follows:

"An abandonment of a contract may be effected by acts of

one of the parties thereto, which are inconsistent with its existence and acquiesced in by the other party." 40 N.W.2d at 663

In *King Realty, Inc. v. Grantwood Cemeteries, Inc.,* 4 Ariz. App. 76, 417 P.2d 710 (1966), the Arizona Court of Appeals applied the above rule in a suit brought for an accounting on an agency contract. In denying the accounting, on the grounds that the contract had been abandoned by the parties, the Arizona Court stated:

"We feel that there was ample evidence from which the court could have found that prior to October 15, 1956, the parties acted and dealt with the subject matter of the contract in a totally inconsistent manner and that the contract was abandoned prior to that time. *Where the acts of one party inconsistent with the existence of a contract are acquiesced in by the other, the contract will be treated as abandoned.* 17 A C.J.S. Contracts, § 389; Wiegart v. Becken, 21 Wash.2d 59, 149 P.2d 929 (1944); Jensen v. Chandler, 77 Idaho 303, 291 P.2d 1116 (1956). * * * " 417 P.2d at 714-15 (Emphasis added.)

In *Annett v. Stout,* 322 Mich. 457, 34 N.W.2d 42 (1948), The Michigan Supreme Court found as a matter of law that a contract for the sale of real property had been abandoned by the parties thereto. In that case a purchaser brought an action to recover a one-half interest in a land contract. The evidence adduced at trial showed that for a long period of time the purchasers were in default in the payment of installments under the contract and in the payment of taxes. It further showed that plaintiff's copy of the contract of purchase had been returned to the vendor. The trial court entered judgment for the plaintiff and on appeal the judgment was reversed. The Court held that as a matter of law there had been an abandonment of the contract of sale. The Court stated:

" * * * On this appeal the question is presented:

" 'Can there be a parol surrender or abandonment by a vendee of his interest in a land contract to the vendor-fee owner?'

"The answer is in the affirmative and we have so held in numerous cases. . . .

" 'Conduct on the part of both the vendor and purchaser which is inconsistent with the continuance of the contract of sale constitutes rescission by abandonment.

'Rights of either party under a contract for sale of land may be lost by abandonment and it is not necessary that relinquishment be in writing as an abandonment may be deduced from circumstances or course of conduct. . . .'

* * * * * *

"In our judgment it clearly appears from this record that there was a surrender and abandonment by plaintiff and Edward Stout of their vendees' interest in the Lee Hotel contract, and that the same was accepted and acquiesced in by the vendor; . . . ." 34 N.W.2d at 43-46

WHERE IT APPEARS THAT THE SELLER WOULD BE WHOLLY UNABLE TO PERFORM AND COMPLETE A PURCHASE AND SALE AGREEMENT, NO DAMAGES CAN BE RECOVERED FROM THE PURCHASER WHO REFUSES TO TENDER PERFORMANCE.

It has been held that a purchaser of personal property or one who undertakes to buy will not be compelled to abide by his promise if the seller offers a title which is open to doubt and challenge or which threatens to involve the buyer in costly litigation. It has also been held that to render a title doubtful within the meaning of the rule, it is not necessary that it be bad in fact; it is enough that the title is so uncertain, clouded by apparent defects, or subject to reasonable misgivings that prudent men, knowing the facts, would hesitate to take it. This was the holding of *Hollywood Plays v. Columbia Pictures Corp.,* 299 N.Y. 61, 85 N.E.2d 865, 10 A.L.R.2d 722 (1949).

In the *Hollywood Plays* case the plaintiffs sued for breach of a contract to buy from them the motion picture rights to a designated play. The plaintiffs derived 50% of their title through a purchase from the trustee in bankruptcy of a former owner of the rights. The schedules filed by the bankrupt in connection with his petition in bankruptcy and the bill of sale later executed by the trustee

both listed the bankrupt's interest in the rights as 25%, and defendant refused to perform the contract on the ground that plaintiffs' title was defective. Reversing the judgment of the court below, the Court of Appeals took the view that the possibility of litigation over one-half of the interest derived by plaintiffs from the bankruptcy sale justified defendant in declining to perform and necessitated a dismissal of the complaint in the suit. In that case the Court stated:

> "A practical problem calling for choice of action, not a theory, confronted defendant and its attorneys. They might either have refused to go through with the transaction or they might have disregarded the palpable flaw in plaintiff's title, accepted it, paid $150,000 for the play and invested another million dollars to screen and produce it. To have pursued the latter course might well have jeopardized the entire investment. *As a practical common-sense matter, no businessman could reasonably be expected to invest so large a sum in a title that might at any moment have generated a lawsuit.* As a legal matter, no court should condemn the course which the defendant actually took. Though there existed the possibility that the buyer's fears concerning plaintiffs' title might later have proved groundless, those fears certainly had substance, founded as they were upon reasonable doubts and uncertainties. 'A prudent purchaser may not be labelled as unduly cautious when he refuses such a title.' Van Vliet & Place v. Gaines, [249 N.Y. at 110]" 85 N.E.2d at 868 (Emphasis added.)

In *Shores Lumber Co. v. Claney,* 102 Wis. 235, 78 N.W. 451 (1899), the seller under a contract for the sale of lumber, brought an action against the buyers for breach of the contract of sale. After the execution of the contract in question the defendant learned that the plaintiff was not the owner of the lumber in question and had no right to sell same. The buyers thereupon refused to give their note as required by the contract until the seller would cure the defect in the title. In preparing the lumber for sale to the defendant, the plaintiff marked the lumber with the defendants' name. When the buyer refused to complete the transaction, the seller planed the defendants' name off of the lumber and entered into a contract to sell the lumber

to a third party. The Court held that the defendant buyers were excused from performance under the contract where the seller tendered defective title to the goods and secondly, that by the inconsistent acts of the seller, the contract had been rescinded. The Court stated:

> " * * * Before the delivery of the note for the purchase price by the purchasers, the true owner of the lumber notified them of his claim thereon, and that he would not waive it without payment. *Certainly, defendants were justified in refusing to make payment, under the circumstances in proof, unless plaintiff cleared the title to the lumber.* . . . The contract of the parties, and their acts under it, indicating an attempt to make a present sale and delivery of the lumber, *the vendor could not lawfully compel the vendees to pay for property to which it had no title, or which was encumbered by liens or mortgages* . . . " 78 N.W. at 452 (Emphasis added.)

WHERE THE SELLER HAS NOT ESTABLISHED THAT HE HAS SUFFERED LOSS FROM THE BREACH, HE IS NOT ENTITLED TO RECOVER ACTUAL OR COMPENSATORY DAMAGES.

(a) As a general rule the measure of damages for breach of an agreement of sale by a buyer for nonacceptance of the goods, is the difference between the contract price and the market or current price at the time and place of performance.

The general rule is set forth in 78 C.J.S., *Sales* § 478, p. 137, as follows:

> "It is the general rule, either under a provision to that effect in the Uniform Sales Act, which is declaratory of the common law, or apart from, or without reference to, the act, that the measure of damages, on the buyer's refusal to accept and pay for goods sold for which there is an available market, is, in the absence of special circumstances, the difference between the contract price and the market or current price or value at the time or times when the goods ought to have been accepted, ..."

Further, at 108 A.L.R. 1485, the rule is stated:

> "However, the general rule seems to be that, on breach of a sale contract by a buyer, the measure of damages is the difference between the contract price and the market value of

> the goods at the time and place of delivery, or, as stated in the Uniform Sales Act, at the time when the goods ought to have been accepted." (Citing *inter alia,* United States v. Burton Coal Co., 273 U.S. 337, 47 S.Ct. 351 (1927); Boyles v. Kingsbaker Bros. Co., 5 Cal. 2d 68, 53 P.2d 141 (1935))
>
> (b) Where the consideration to be paid by a buyer under a contract of sale includes property, other than money, the value of the property to be used in computing the seller's damage is the *value of the property at the time and place stipulated for delivery thereof.*

In *Pope v. Mergenthaler Linotype Co.,* 131 S.W.2d 668 (Tex. Civ. App. 1939), an action was brought by the seller of linotype machines to recover damages for breach of the contract of sale by the buyer. Under the contract of sale the buyer was to trade in two old machines as a part of the consideration for the sale. The parties stipulated as to the value of the trade-in machines which stipulated value was in excess of the market value at the time of the sale. In holding that the *value of the buyer's property at the time stipulated for delivery* was to be the basis for the determination of the amount of damages, the Court stated:

> "Appellee made no effort, nor was there any evidence tending to show the market value of the machine in question at the time and place of the alleged breach of Pope's obligation to deliver it to appellee, but, for a measure of damages, appellee relied entirely upon the evidence of an alleged parol agreement of a specific value. The trial court submitted the alleged agreed value as the measure of appellee's damages. We conclude that this was error, for under the record as we have stated it, if the breach occurred, *the true measure was the market—or in the alternative, intrinsic—value of the machine at the time and place Pope was obligated to deliver it to appellee. ...*" 131 S.W.2d at 671 (Emphasis added.)

See also *Popp v. Yuenger,* 229 Wis. 189, 282 N.W. 55 (1938) 108 A.L.R. 1498

Stevens v. Mitchell, 51 N.M. 411, 186 P.2d 386 (1947)

Since appellant does not now own the mortgages in question and the property involved is now owned by others, just what

does appellant propose to transfer to appellee in exchange for $15,977,313.45?

SPECIFICATION OF ERROR NO. III

"III. The trial court erred in considering the affidavits of Richard Snell and Marie Peipelman in that said affidavits are at best hearsay and opinion documents, contain the affiants' conclusions of law and do not conform with the requirements of Rule 56(e), Federal Rules of Civil Procedure."

The Snell affidavit served two purposes. First to identify and verify documents. These were the preliminary title report of April 24, 1962, as being the only "verification" received from Union Title Company as to the legal status of the mortgages as "first mortgage liens" and the Broadman letter of June 27, 1962. It served the further purpose of establishing that after the Broadman letter appellant never again made any effort to consummate the contract and that Western Equities considered it as abandoned and rescinded. For this purpose it was a valid affidavit. No dispute exists as to these facts.

The Peipelman affidavit and Title Report, Exhibit A in Evidence (Transcript May 29, 1967 hearing, p. 8) was, by stipulation given evidentiary status (supra p. 7). Any doubt as to the propriety of the Court treating it as such is put to rest by counsel for appellant himself in the July 25, 1967 hearing as follows:

"MR. BICKART: I will quote from my stipulation on the 29th of May, your Honor, with regard to Exhibit A and Interrogatory No. 6:

"'And my understanding with Mr. Wilmer is that I am agreeable for the purposes of the presentation of this motion that on certain dates there were given encumbrances against the properties, some of which were contained in Miss Peipelman's affidavits, some of which were contained in Exhibit A attached to this motion, and also referred to in the responsive affidavit of Mr. Mack, in response to his motion.'

"That was my stipulation, that the Court could consider those matters found by Miss Peipelman *as matters of record,*

for the purposes of the motion for summary judgment. Now, as a matter of law, we felt that it wasn't material, but—

"THE COURT: So in effect what you are saying, Mr. Bickart, was that, as far as your position is concerned, there's no need to repeat what is already in the record.

"MR. BICKART: Yes, that's right. Mr. Wilmer indicated that it was costly for him to attach certified copies of all these matters of record, and I understood the problem and I said, 'Fine, we'll put in Marie Peipelman's title memorandum reports.'

* * * * * *

"THE COURT: So far as the motion for summary judgment is concerned, do I understand you to say, regardless of whether or not the interrogatories have been answered to the satisfaction of the proponent that there is sufficient material in the file, and the court considers the pleadings—

"MR. BICKART: Yes, Sir.

"THE COURT: —and the exhibits attached and the exhibits put in—

"MR. BICKART: Yes, Sir.

"THE COURT: —dispose of that question.

"MR. BICKART: Yes sir. It is the defendant's position that plaintiff would be unable to have performed its part of the contract because of the condition of title. And Interrogatory No. 6 and the stipulation put in the information relating to the condition of title.

* * * * * *

"THE COURT: The Court was concerned whether it was necessary actually to have further answers, in view of your statement with respect to exhibits.

"MR. BICKART: The affidavits of Marie Peipelman may be considered by the Court. We have no objection to that." (Emphasis added.) (pp. 9, 10, 11 and 15, Transcript July 25, 1967 hearing)

Further answer to appellant on this point seems quite unnecessary.

SPECIFICATION OF ERROR NO. IV

"IV. The trial court erred in making Findings of Fact and Conclusions of Law and in so doing it found facts not con-

tained in the record, nor accurately represented therein and drew conclusions of law contrary to the decisions interpreting such facts. Rule 56(a), Federal Rules of Civil Procedure."

Appellant has failed to point out any Findings of Fact or Conclusions of Law which were improperly made. We will not therefore consider this Specification further. The Court certainly in its discretion may put on the record its reasons for its decision.

CONCLUSION

The Court below might well be affirmed on the basis that appellant had wilfully failed to answer interrogatories fully and completely after being ordered to do so. *Robinson v. Transamerica Ins. Co.* (C.A. Utah 1966), 368 F.2d 37, *Michigan Window Cleaning Co. v. Martino* (C.A. 6, 1949), 173 F.2d 466.

However, the claim of appellant is so plainly frivolous and lacking in merit that a disposition of the claim upon the merits is preferable.

Respectfully submitted,
SNELL & WILMER
By Mark Wilmer
Attorneys for Appellee
400 Security Building
Phoenix, Arizona 85004

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

____
Attorney

APPENDIX A

INTERROGATORIES PROPOUNDED TO PLAINTIFF FEBRUARY 28, 1967 AND ANSWERS THERETO

Int.# 1. Is the corporation, Monroe Street Properties, Inc. in good standing at the present time under the laws of the State of Arizona?

Answer — 1. No; however, steps are being taken to reinstate the Charter at present.

Int.# 2. If not, who were the last officers and directors of said Monroe Street Properties, Inc., with their present addresses?

Answer — 2. George W. Switzer, 520 West Clarendon, Phoenix, Arizona, President; Arthur Daniels, Wilcox, Arizona, Secretary/Treasurer.

Int.# 3. What, if any, action was taken by Monroe Street Properties or by its Board of Directors and officers in authorizing the bringing of this litigation? Please attach copies of any minutes, resolutions or other writings embodying the aforesaid corporate action if it is claimed such action was taken.

Answer — 3. A corporate Resolution was passed, after Waiver of Notice of Meeting, authorizing the commencement of this action in the name of MONROE STREET PROPERTIES, INC.

Int.# 4. Please state the assets owned by Monroe Street Properites, Inc. on March 27, 1962 and continuing through July 1, 1962.

Answer — 4. Ten mortgages and notes upon the property described in plaintiff's Complaint as executed and deposited in Escrow No. 115185.

Int.# 5. Please state the obligations, contingent, or liquidated, which were owed by Monroe Street Properties, Inc. on the dates March 27, 1962 through July 1, 1962.

Answer — 5. Unknown.

Int.# 6. Please state the obligations against each of the parcels of real property described in plaintiff's complaint and which

were alleged to have been the subject of a first mortgage to be sold to Western Equities, Inc. including whether or not the same was delinquent and if secured by liens, please state the names of the lienor, the lienee and other factors disclosing the amount and character of the indebtedness against each of said properties.

Answer — 6. Please refer to the public records of the Maricopa County Recorder.

Int. # 7. If the obligations and liens against each of said lots appeared of record as prior to the lien of the mortgage propposed to be sold to Western Equities, Inc., please state the source of the funds to be used by Monroe Street Properties, Inc. in discharging such prior lien.

Answer — 7. Funding was to be obtained by Union Title Company for the purpose of consummating the escrow between MONROE STREET PROPERTIES, INC., and WESTERN EQUITIES, INC.

TABLE OF CASES AND AUTHORITIES

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IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 22228

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Arizona corporation, Appellant,

v.

ORVILLE S. CARPENTER, TRUSTEE,
etc., Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA

APPELLANT'S REPLY BRIEF

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Phoenix, Arizona 85003

Attorneys for Appellant

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APPELLANT'S REPLY BRIEF

COMMENTS ON STATEMENT OF CASE

Appellee's statement of the case endeavors to enlarge the statement of facts, as set forth by the appellant in his opening brief. Appellee, however, has gone beyond the actual facts as disclosed in the transcript of record on file in this matter. By way of example, on page 2, referring to the communication of April 10, 1962 (TR 102) signed by James E. Mack, appellee concludes argumentatively with the statement "*This does not constitute 'verification' that these mortgage liens would be first liens and indeed, such could not be verified.*" (Emphasis added) Nowhere in the record does such a conclusion gain any merit or support.

Additionally, appellee is endeavoring to expand

the issues raised by this appeal in the statement of facts by asserting the contention factually that the motion for summary judgment was granted as the result of plaintiff's failure to answer interrogatories (see pages 5-9, Brief of Appellee). This is not the case for the court entered no order by way of its formal judgment nor in its findings of facts and conclusions of law that supports the conclusion that the summary judgment was granted due to plaintiff's failure to answer interrogatories (see TR 148-56).

REPLY TO APPELLEE'S POSITION REGARDING SPECIFICATIONS OF ERROR I AND II

It appears that appellee, in his brief, concludes from the record only that portion which he chooses to see. He states that there is no dispute in the record as to the following material facts.

On page 9 of his brief it is alleged that Union Title Company, the designated stakeholder of the parties, could not verify that the liens were first mortgage liens. This is a conclusion wholly unsupported by the transcript of record. His purported undisputed

fact on page 10 is likewise a misstatement and conclusion that Monroe Street Properties did not loan any money or give any other consideration to Metropolitan Trust for the notes and mortgages and the basis for this alleged undisputed material fact is predicated upon appellant's answer to interrogatory number 2, Interrogatories to Plaintiffs, set 2 (TR 115). An examination of that answer will disclose that appellee has artfully omitted the word "initially" from his interpretation of the facts. For in fact, initially no consideration was to flow to Metropolitan Trust until after appellee had complied with the contract.

On page 10 of appellee's brief, appellee asserts in item IV a conclusion wholly unsupported by the record that by intimating that the investment stock to be received by appellant was going to be utilized in a secondary distribution. This, too, was not the case, for the record (TR 106) reflects that all of the stock had been assigned to Union Title Company, the stakeholder, and when read in conjunction with the affidavit of James E. Mack (TR 96-100) it can be easily discerned that no secondary distribution of this investment stock was ever contemplated, but that Union Title, who was

in fact the offeree (TR 5-7), was to be the party consummating the transaction and satisfying the encumbrances thereon.

The remaining conclusions in response to Appellant's Specifications of Error I and II, found on page 10, and in particular, items 5, 6, 7, 8, 8 again, and 9 are wholly unsupported by the record. It is the position of the appellant that this Court need but look to the actual terms of the contract between the parties, as embodied in the escrow instructions (TR 8, 9), to distinguish and to answer, and in fact resolve, all of the questions of law that are propounded by appellee in his brief. These cases are all clearly distinguishable on their facts. The actual terms of the contract between these parties were not strictly that of a seller and purchaser, because in the strictest sense both parties were selling and both parties were buying, and it was not the obligation of appellant to deliver the ten first mortgages and notes as verified and insured by Union Title Company until the closing date of the escrow (TR 8, 9) which was "the date upon which Western Equities, Inc., stock had been listed on the American Stock Exchange and *delivered to escrow agent*" (Emphasis added).

At no time from the transcript of record did appellee ever meet that condition, and whether or not he was required to do so, appellant believes, should be determined by the actual terms of the contract between the parties and that the conditions upon the parties were in fact concurrent. The entire thrust of appellee's brief is to change the actual contract of the parties and by insinuation infer that appellant was required to perform prior to the time the appellee was required to perform. The contract documents clearly set a time for performance and only then was appellant required to deliver that which the contract called for.

The law is quite clear as set forth in *Corbin on Contracts*, Ch. 68, § 1260, that:

> "A promisor is not justified in failing to render his promised performance by the mere fact that he reasonably believes that there will be a failure of consideration in the future. Prospective failure is more difficult to prove than is an already existing failure. It is determined by a process of prediction, not by history.******** It seems enough to say that the court must be thoroughly convinced that the agreed equivalent will not be rendered. The Plaintiff certainly should be given ample opportunity to show that the *present appearances* are not final or conclusive or even to give security in some reasonable form that he will perform when the time comes." (Emphasis added)

Appellee has cited the case of *Alaska Airlines v. Molitor*, 285 P.2d 893 (Wash. 1955), which on its face appears to support the position of the appellee, but a closer examination of the case reveals that the parties in the *Alaska Airlines* case were confronted with a wholly different form of contract than the one in the instant case. In the *Alaska Airlines* case the contract to purchase created an installment obligation calling for monthly payments after the down payment of $1,000 per month, and after the buyer had deposited his $12,000 earnest money, it became apparent to him that notwithstanding the payments that he would be making, the seller could not deliver that which he had contracted to sell and therefore the court *on the basis of that contract* ruled that the purchaser had the right to cancel the agreement. That is not the case that is before this court. Appellee was required by the terms of the contract to tender performance before it could in fact conclude that appellant could not perform, for the conditions of the contract between the parties at hand were concurrent, 2 *Williston on Sales*, §§ 447, 448.

APPELLEE HAS FAILED TO MEET THE ISSUE REGARDING THE LAW RELATING TO SUMMARY JUDGMENT

An examination of appellee's brief discloses that except by an effort to insert extraneous and conclusionary matters unsupported by the transcript of record, appellee has failed to meet the thrust of this appeal as set forth in appellant's Specification of Error I in that the record discloses a material issue of fact, thereby preventing summary judgment. It was the contention of appellee in his motion for summary judgment that appellee was excused from the performance of this contract because he believed appellant could not perform. The record discloses a controverting affidavit of James E. Mack (TR 96-100) which states that the conditions could have been met and were in the process of being negotiated and met and arrangements were being made to satisfy each and every one of the items which appellee has taken great pains to point out to the Court. This affidavit when construed with the other exhibits filed in response to appellee's motion for summary judgment (TR 101, 102, 103, 104, 105 and 106) clearly raises the issue and a most

material one of whether or not appellant could or could not have performed. Appellee has failed to meet the law that where on its summary judgment the record will be viewed favorably in light of the party opposing the motion and that the pleadings are to be construed liberally in favor of the party opposing the motion and that summary judgment is only proper when after an examination of the entirety of the record viewed favorably to the opponent it appears to the court from the pleadings, affidavits, exhibits, depositions and admissions reflected that there is no genuine issue as to a material fact. Only then is a party entitled to summary judgment. *Bouler v. Columbia Broadcasting Systems, Inc.*, App. D.C. 1962, 82 S.Ct. 486, 368 U.S. 464, 7 L. Ed. 2d 458; *Cress Auto Supplies, Inc. v. Ero Mfg. Co.*, C.A. Ill. 1966, 360 F.2d 896.

As appellant reviews the transcript of record in this matter, it finds that each and every proceeding was bitterly contested and controverted. The findings of fact and conclusions of law that the court entered clearly disclose that the court endeavored to try the issues of fact, and in fact weighed evidence and resolved issues in determining the motion for summary

judgment, for necessarily, in order to grant summary judgment the court would have had to weigh the Peipelman and Snell affidavits against the Mack affidavit and exhibits, and this being the case, the court clearly exceeded the powers conferred under Rule 56, for it has long been the basic mission of summary judgment that the court's duty is limited to a determination of whether factual issues exist, but not to determine and try those issues. *Empire Electronics Co. v. United States*, C.A. N.Y. 1962, 311 F.2d 175; *National Screen Service Corp. v. Poster Exchange, Inc.*, C.A. Ga. 1962, 309 F.2d 647; *Hamman v. United States*, D.C. Mont. 1967, 267 F. Supp. 411.

If this Court but reads the findings of fact and conclusions of law made by the trial court, it cannot help escape the conclusion that the court made factual findings by referring to portions of the record where disputed issues of fact appeared and this likewise is beyond the scope of Rule 56, *Bolack v. Underwood*, C.A. N.M. 1965, 340 F.2d 816.

CONCLUSION

Contrary to the conclusion reached by appellee in his brief, there is no substance to the allegation that the motion for summary judgment was granted as a result of appellant's willful failure to answer interrogatories fully and completely. However, as appellee so deftly puts the matter, the court below should be reversed upon the issue alone of the excess in the application of the provisions of Rule 56, *Federal Rules of Civil Procedure*, when he purported to act as the trier of the facts and conducted a trial by affidavits, thereby depriving appellant of its opportunity to be heard upon the merits of its claim which are not so plainly frivolous nor lacking in merit as appellee would like this Court to believe.

Respectfully submitted,

KANNE, BICKART & CROWN

By /s/ Allen B. Bickart

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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ Allen B. Bickart
Allen B. Bickart

AFFIDAVIT OF SERVICE BY MAIL

ALLEN B. BICKART, being duly sworn, says that he deposited three (3) copies of the foregoing Appellant's Reply Brief in final printed form in the United States Post Office in the City of Phoenix, State of Arizona, enclosed in an envelope duly addressed to Snell & Wilmer, 400 Security Building, Phoenix, Arizona 85004, with postage fully prepaid; he further states that he deposited twenty (20) copies in the United States Post Office in the City of Phoenix, State of Arizona, duly addressed to the Office of the Clerk, U. S. Court of Appeals for the Ninth Circuit, San Francisco, California 94101.

Both mailings were made on the 30th day of December, 1967.

/s/ Allen B. Bickart
Allen B. Bickart

Subscribed and sworn to before me
this 30th day of December, 1967.

/s/ Polly Ann Campbell
Notary Public

My commission expires:

June 5, 1971

NO. 22229

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

BILL HARVEY DUKES,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

FILED

MAY 7 1968

WM. B. LUCK, CLERK

APPELLEE'S BRIEF

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THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

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APPELLEE'S BRIEF

I

STATEMENT OF PROCEEDINGS AND JURISDICTION

The files and records in the appellant's original criminal trial, United States v. Frank Harvey Dukes, Southern District of California, Central Division, No. 34393-CD show that: on January 11, 1965, at his arraignment, a lawyer was appointed to represent the appellant. On January 25, 1965, the appellant proceeded to trial with his attorney; on January 27, 1965, he was convicted by a jury, and sentenced by the court to 25 years; on February 4, 1965, the appellant, in pro per, filed a motion for leave to appeal in forma pauperis, which was denied on that date

by the court as frivolous and not taken in good faith; on or about March 10, 1965, appellant's court-appointed attorney filed a motion, executed by appellant, pursuant to Rule 35, for a reduction of sentence; on March 22, 1965, that motion was argued by counsel before the court and denied; on February 24, 1966, appellant herein filed a petition in the District Court, addressed to the Ninth Circuit Court of Appeals requesting leave to appeal in forma pauperis (Frank Harvey Dukes v. United States of America, Ninth Circuit Misc. 2696); on November 3, 1966, the motion was denied; on December 8, 1966, a motion for a rehearing en banc was denied; thereafter petitioner moved the United States Supreme Court for a writ of certiorari, and that motion was denied, as was a motion for a rehearing. 386 U.S. 946, 988 (1967).

The files and records in United States v. Frank Harvey Dukes, Southern District of California, Central Division, No. 34393-CD, Criminal, show that no notice of appeal was ever filed, and that no request for an attorney to prosecute to the Ninth Circuit either an appeal or a petition for leave to appeal in forma pauperis was filed.

A. APPELLANT'S CLAIMS OF ERROR

The claimed errors presented in appellant's "Brief in Behalf of Appellant" (herein abbreviated as "B") are different from the claimed errors presented to the District Court in appellant's "Motion, pursuant to Sec. 2255 of Title 28, United States Code By

a Person in Federal Custody" (herein abbreviated as "M"). For this reason, as well as for convenience and clarity, a summary of the claims presented in each pleading seems useful.

1. CLAIMS PRESENTED IN THE §2255 MOTION

The motion states as grounds:

"(a) Denied the protection of the 1st, 5th, 6th, 8th, 14th Amendments of the United States Constitution.

"(b) Denial of the protection of the 'Rules of Federal Criminal Procedure' in Rules 3, 5, 7, 8, 10, 11, 12, 26, 30, 31, 32, 33, 35, 38, 44, 46, 52, 53, 60B." [M. 3]

The facts allegedly supporting these grounds are:

"Ineffective counsel (not incompetent) caused petitioner's above mentioned constitutional rights to be violated by being forced by the court to accept this petitioner's case (see Exhibits Nos. 4-9, Lines 1-25), and not pursuing appeal to the 9th Circuit Court of Appeals without payment. Also not having counsel prior to the time of plea, bias of judge.

"Denial of 'Rules of Federal Criminal Procedure' because of the trial judge's flippant aditude of court room procedures & resulting from

[illegible]

bias to the petitioner from the bail hearing's reading of the records that prove to be false. (see Exhibits 'A' and '10')." [M. 3]

The motion also contains two portions which are incorporated as part of the statement of grounds and facts. The "Argument and Facts" (hereinafter abbreviated as "A") is a brief. The second portion consists of thirteen exhibits, designated A, B, C and 1-10. (The exhibits are referred to as designated in the motion).

The entire motion asserts these grounds for Section 2255 relief:

The denial of counsel at the hearing on bail reduction and arraignment and plea [M. 3, A. 7, 10];

The court forced the appellant's appointed counsel to accept the case, and forced the appellant to accept the counsel appointed [M. 3, A. 7];

The trial court, who had presided at the bail reduction hearing, was biased thereafter against the petitioner because, at the bail reduction hearing, an FBI record was read stating that petitioner was an escapee from the New Jersey State Prison, while, in fact, the petitioner was an escapee from a county jail [M. 3, A. 7];

Lack of meaningful representation by counsel at the trial and at the sentencing, because counsel did not consult with the appellant before trial and was not informed about the appellant's

record nor about the considerations which the court was using in imposing sentence [M. 3, A. 5, 7, 10].

Sentencing appellant immediately after conviction without a pre-sentence investigation [A. 6];

The use at sentencing of an FBI record concerning appellant which record contained allegedly erroneous information [M. 3, A. 4, 8, 10];

The interruption at sentencing by the trial judge of a comment or inquiry by appellant's attorney [A. 4];

The "flippant attitud", of the trial judge which caused the appellant to refrain from interrupting the reading of the FBI record when further errors were read [M. 3, A. 4, 10];

The disparity between the sentence given appellant and that given by another judge to appellant's accomplice [A. 9];

Bias of the trial court against those who plead not guilty [M. 3, A. 8, 9];

An ineffective court appointed counsel who did not appeal without payment to the Ninth Circuit Court of Appeals [M. 3].

Appellant's motion also requested the appointment of an attorney to represent him on his motion, and his motion was accompanied by an Affidavit of Bias, pursuant to 28 U.S.C. §144 [A. 10].

2. CLAIMS STATED IN THE "BRIEF ON BEHALF OF APPELLANT"

The claims of error presented in the brief are more numerous than those presented in the motion. The following errors are alleged to have been made at all stages of the proceedings:

At the arraignment, Judge Carr manifested a personal bias against the appellant [B. 11-12];

The prosecution and Judge Carr maneuvered to have the trial of the case transferred from Judge Curtis' trial calendar to Judge Carr's trial calendar [B. 12];

Misidentification of the appellant at the trial [B. 31];

Misstatements by the appellant's accomplice regarding the name and date of the bank robbed [B. 31];

Giving erroneous jury instructions [B. 31];

Improper comment by the court on the evidence [B. 31];

Sentencing the petitioner to the maximum term of twenty-five years [B. 3, 4];

Imposing sentence immediately following the jury verdict without obtaining a presentence report [B. 11, 13];

Using erroneous data in the FBI record as a basis for the sentence [B. 4, 8-10, 15, 35];

The District Court failed to discuss the FBI record with the defendant [B. 10, 11];

Receiving ineffective representation at the sentencing because his counsel did not challenge the erroneous data, told the defendant to answer the court's questions, and revealed a

conversation with the defendant [B. 4, 15-19];

District Court action denying him leave to appeal in "forma pauperis" [B. 2, 5, 13, 24, 25, 28, 33, 35];

Using incarceration procedures which prevented him from perfecting and protecting his appeal [B. 26];

Not receiving counsel to assist him in perfecting his appeal from the trial verdict [B. 5, 25, 33, 35];

The denial by this Court of Appeals as "untimely" of his petition for leave to appeal, and of his petition for rehearing thereon [B. 2];

The denial, by the United States Supreme Court of his petition for certiorari and of his petition for rehearing thereon [B. 2];

The denial of his affidavit disqualifying the sentencing judge from hearing the §2255 motion [B. 1, 4-8, 11-15, 34-35];

The denial of counsel to assist him with his §2255 motion [B. 35];

The denial of his right to be present at the hearing on his motion [B. 35];

The denial without a hearing of his §2255 motion [B. 3, 33, 34];

Overruling his §2255 motion because each of these defects required the granting of the motion;

Receiving an unconstitutionality imposed maximum sentence [B. 3, 4, 10, 11];

Using an erroneous FBI report in sentencing [B. 3, 4,

8-10, 13, 15, 35];

Having ineffective counsel at the sentencing [B. 3, 4, 11-18];

Receiving a twenty-five year sentence while his accomplice received only a six year sentence [B. 18];

Denying his motion to appeal his conviction in forma pauperis [B. 5, 13, 24, 31, 35];

Preventing him from perfecting his appeal [B. 36]; and

Not receiving the assistance of counsel in his efforts to perfect an appeal from his conviction [B. 5, 25, 35].

The District Court had jurisdiction under the provisions of Title 18, United States Code, Sections 2113(a)(d) and 3231, and Title 28, United States Code, Section 2255.

This Court has jurisdiction to review the judgment of the District Court pursuant to Title 28, United States Code, Sections 1291, 1294 and 2255.

II

ARGUMENT

A. APPELLANT'S AFFIDAVIT OF BIAS WAS LEGALLY INSUFFICIENT.

The court against whom the affidavit of bias was filed was correct in refusing to transfer the matter to another judge. The affidavit is legally insufficient.

The affidavit claims that the Honorable Charles H. Carr

is biased against the appellant for three reasons:

Misreadings of FBI records at a bail reduction hearing;

Further misreading of an FBI record at the time of sentencing; and

The court's remarks about motions for relief under 28 U. S. C. §2255.

28 U. S. C. §144 requires a factual showing that:

" . . . the judge before whom the matter is pending has a personal bias or prejudice either against him or in favor of any adverse party. . . ."

Appellant's affidavit is insufficient, and even the most generous interpretation will not correct the deficiencies. The authorities cited in appellant's brief, at pages 14 and 15, do not support the appellant's position. Hogdon v. United States, 365 F.2d 679 (8th Cir. 1966), and Haliday v. United States, 380 F.2d 270, 272, 274 (1st Cir. 1967) support the court's ruling. The affidavit lacks any facts showing any personal bias by the court.

In Berger v. United States, 255 U.S. 22, 36 (1921), the court held that the judge against whom the affidavit is directed may rule on the sufficiency of the affidavit. The court reaffirmed an earlier decision in Ex parte American Steel Barrel Company, 230 U.S. 35:

"That the bias or prejudice which can be urged against the judge must be based upon something other than the rulings in the case." (at p. 31)

The matters referred to in the petitioner's affidavit arise from the judicial consideration of this case.

In Connelly v. United States District Court, 191 F.2d 692 (9th Cir. 1951), and Gladstein v. McLaughlin, 230 F.2d 762 (9th Cir. 1955), this Court sustained as sufficient affidavits of prejudice. Those affidavits clearly related to prejudice of extra-judicial origin. In Lyons v. United States, 325 F.2d 370 (9th Cir. 1963), this Court said:

"For disqualification of a judge under 28 U.S.C. §144, a sufficient showing by affidavit of personal bias or prejudice is required (citations omitted). The section is directed to personal bias, which means an attitude of extra-judicial origin. A mere showing of prior judicial exposure to the present party to the question will not invoke the section. . . ." (at page 376)

In Cole v. Lowe's Inc., 76 F. Supp. 872 (S.D. Cal. 1948), in a lucid and thorough discussion, Judge Yankwich summarized the law:

"The mere filing of an affidavit does not oust the judge from the cause.

"The judge has the right to determine the legal sufficiency of the affidavit.

"The bias or prejudice must be personal, i. e., antagonism or opposition to the litigant or favoritism for his opponent.

"Definite views on the law, adverse rulings in the case on trial, or adverse rulings against the suitor in other cases or in cases involving similar facts do not constitute such disqualification, even in a criminal prosecution." (at pages 876, 877).

Appellant's affidavit does not meet the standard of personal, extrajudicial bias. The incidents of bias all occurred during various stages of the proceedings which led to the appellant's conviction and sentence. In two of the cases, the appellant objects to sources to which the court referred for information; in the third, the appellant attempts to convert a statement of caution by the court into a statement of personal hostility.

B. THE LOWER COURT DID NOT ABUSE ITS DISCRETION BY NOT APPOINTING AN ATTORNEY AND BY NOT ORDERING APPELLANT'S PRESENCE.

Appellant's claims of major procedural errors in connection with the denial of this §2255 motion are without merit. He had neither an absolute right to counsel nor to a hearing at which he

was in attendance.

The lower court found and held that: " . . . the motion and the files and the records of the case conclusively show that the prisoner is entitled to no relief . . ." and denied the motion without a hearing. 28 U.S.C. §2255, Order denying motion, etc., dated August 2, 1967. Even if there had been a hearing, the statute clearly indicates that the prisoner is not absolutely entitled to attend. "A court may entertain and determine such motion without requiring the production of the prisoner at the hearing." 28 U.S.C. §2255. This motion was entertained and decided on the record, files and motion papers as authorized by §2255.

Nor was appellant absolutely entitled to an appointed attorney to assist him in the presentation of his motion in the lower court. The question whether to appoint an attorney for appellant in connection with his §2255 motion, is addressed to the sound discretion of the trial court.

> Dillon v. United States, 307 F.2d 445, 447 (9th Cir. 1962);
>
> Vinson v. United States, 235 F.2d 120 (6th Cir. 1956).

In Dillon v. United States, supra, the court held that even when a hearing is held, the court has discretion regarding appointment of counsel. It must decide whether or not a fair and meaningful §2255 hearing cannot be held without the aid of counsel. In this case, considering the forms provided by this Court to the

appellant, his demonstrated ability to express himself, and the absence of any need for a hearing, it clearly cannot be said that an attorney was required for a fair and meaningful motion.

C. MANY CLAIMS RAISED BY APPELLANT'S MOTION WERE PROPERLY DISMISSED BY THE DISTRICT COURT AS UNSUPPORTED.

Many claims made by appellant in his §2255 motion were properly dismissed by the court because the appellant did not allege any supporting facts and none appeared through judicial notice or in the record. The duty of alleging and proving sufficient facts to support his right to relief was the appellant's and mere conclusory allegations in the motion are not enough.

> <u>Ingling</u> v. <u>United States</u>, 303 F. 2d 302 (9th Cir. 1962);
>
> <u>Navedo Santos</u> v. <u>United States</u>, 305 F. 2d 372 (1st Cir. 1962).

Nothing in the motion, the argument and facts, and the exhibits, relates or explains in any reasonable way the claims that he was denied the protection of the First, Eighth and Fourteenth Amendments of the United States Constitution. Nor is there anything in the motion which sustains his claim that he was denied the protection of any of the following Rules of Federal Criminal Procedure: 3, 5, 7, 8, 10, 11, 12, 26, 30, 31, 33, 38, 46, 52, 53, 60B [M. 3].

D. MANY ERRORS URGED ARE NOT PROPERLY BEFORE THIS COURT BECAUSE THEY WERE NOT RAISED IN THE LOWER COURT.

Appellant's brief attempts to have this Court decide many claims which were never presented in appellant's §2255 motion. We respectfully suggest those issues are not properly before this Court and should not be considered.

Geise v. United States, 262 F. 2d 151, 157 (9th Cir. 1958).

The first claim is that there was maneuvering by the prosecution and Judge Carr to have the trial transferred from Judge Curtis to Judge Carr [B. 12]. No supporting facts are alleged, nor is there any statement showing how appellant might have been prejudiced.

Hill v. United States, 368 U.S. 424, 428 (1962);
Machibroda v. United States, 368 U. S. 487 (1962).

The next group, matters specified as errors the appellant wanted to appeal, were not asserted below: misidentification of the defendant, misstatements by the defendant's accomplice, erroneous jury instructions and improper comments by the court [B. 31]. Even if properly raised, these claims are without merit. These allegations are merely unsupported conclusions. Ingling v. United States, supra; Navedo Santos v. United States, supra. The §2255 motion is not an appeal substitute, and only deals with fundamental errors. Hill v. United States, 368 U.S. 424, 428 (1962);

Machibroda v. United States, 368 U. S. 487 (1962); Dodd v. United States, 321 F. 2d 240, 243 (9th Cir. 1963).

Aspects of the claim of ineffective representation are first raised in this appeal. These are the lawyer's failure to challenge the allegedly false information presented to the court, his instruction to the defendant to answer the court's questions at the sentencing, and his revelation at the sentencing to the court of a communication with the defendant [B. 4, 15-19]. These claims, if true, and properly presented, are insufficient as a basis for §2255 relief. In order to justify a new trial or sentence hearing, the original proceeding must have been a farce because of ineffective representation.

> Machibroda v. United States, supra;
> Hill v. United States, supra;
> Anderson v. United States, 338 F. 2d 618 (9th Cir. 1964);
> Dodd v. United States, supra.

The District Court's denial to the appellant of leave to appeal in forma pauperis from his conviction is also being raised here for the first time [B. 2, 5, 13, 24, 25, 28, 33, 35]. The records of this Court show that appellant never attempted to challenge, in this Court, the District Court's certification that appellant's appeal was without merit and not in good faith. This he was entitled to do. 28 U. S. C. §1915.

> Ellis v. United States, 356 U. S. 674 (1958);
> Johnson v. United States, 352 U. S. 565 (1957).

His belated request to proceed in this Court in forma pauperis was dismissed as untimely, and will be considered later in this brief.

His claim that intraprison incarceration procedures prevented him from perfecting and protecting his appeal was not raised below, and contradicts the record. The file in the appellant's criminal case shows that on March 15, 1965, defendant and his attorney served and filed a motion to modify defendant's sentence pursuant to Rule 35, Federal Rules of Criminal Procedure. It was argued March 22, 1965. Furthermore, an examination of the petition for leave to appeal in forma pauperis, filed in this Court in Dukes v. United States, Misc. No. 2696 (also filed in United States v. Dukes, So. Dist. No. 34353-CC) shows this claim is inaccurate. It contains a note to appellant from the McNeil Island authorities showing that he did have access to the McNeil Island Law Library facilities on March 1, 1965. One can only conclude that he had ample opportunity, in fact, to file an appeal, in person or through his attorney [B. 26].

Finally, appellant's claims of error by the United States Supreme Court's denial of certiorari [B. 2] can be considered only by the United States Supreme Court.

> Cf. Williams v. United States, 307 F. 2d 366 (9th Cir. 1962).

[illegible]

E. APPELLANT RECEIVED EFFECTIVE LEGAL REPRESENTATION AT HIS TRIAL.

The legal representation received by the appellant at his trial provides no basis for relief under 28 U.S.C. §2255.

Appellant's first claim of error is that he did not receive appointed counsel until after the bail reduction hearing and arraignment at which he pleaded not guilty [M. 3, A. 7, 10]. Since appellant pleaded not guilty and had a jury trial, it is hard to see how he was prejudiced and what relief could be afforded to him.

His next claim is that his attorney was forced upon him. This seems to be the basis for his position that his rights under Rule 44, the Fifth Amendment and the Sixth Amendment were violated or abridged. A portion of the transcript dealing with the appointment of counsel appears in the petitioner's motion, Exhibits 6 through 9. Exhibit 8 contains the following quote by the appointed counsel:

> "I am ready to go forward in the case. I have consulted last week with my client and I think I have a pretty good idea of what the Government's case is."

Contradicting the claim that the attorney was forced upon him, the following dialogue appears at A. Exhibit 8:

> "THE COURT: Do you want this man for your lawyer?

"DEFENDANT DUKES: If he is not too overworked, can't take care of me.

"THE COURT: Do you want him, or don't you want him?

"DEFENDANT DUKES: Yes, I will take him.

"THE COURT: All right, you have got him."

Since the appellant had an attorney in the advance of trial, at his trial, at his sentencing, and at the motion pursuant to Rule 35, following the sentencing, it is clear that the appellant's claims are without merit. The trial court, ruling upon this claim, found that the appellant, at the earliest time, was advised that he had a right to an attorney and that an experienced attorney was appointed at the appellant's request. He found that appellant's assertion was not consistent with the record (Order Denying Motion, etc. p. 2). The trial court could properly resolve this issue by drawing on his own personal knowledge and recollection. Machibroda v. United States, 368 U.S. 487, 495 (1962). He may also judicially notice court records. Hood v. United States, 152 F. 2d 431 (C.A. 8, 1946); Estep v. United States, 151 F. Supp. 668, aff'd 251 F. 2d 579 (C.A. 5, 1958); Smith v. United States, 337 F. 2d 49, 51-54, cert. denied 381 U.S. 916 (C.A. 4, 1964). He did both and his judgment is not clearly erroneous. Federal Rules of Civil Procedure, Rule 52(a). The further claim that his lawyer was ineffective at the sentencing is equally without merit on this appeal, as a result of the trial court's findings on the quality of the

representation provided to appellant. The claim of ineffective representation is not a basis for relief under §2255, even where the record shows, as it does not in this case, that the attorney made a substantial mistake.

> Anderson v. United States, 338 F. 2d 618 (9th Cir. 1964);
>
> Washington v. United States, 297 F. 2d 342 (9th Cir. 1961).

The record must show that the trial itself was a farce.

> Dodd v. United States, 321 F. 2d 240 (9th Cir. 1963).

The claim of ineffective representation is the classic example of the error raised on a §2255 motion which the trial court may decide on the basis of judicial notice and its own recollection, without a hearing.

> Wheatley v. United States, 198 F. 2d 325 (10th Cir. 1952);
>
> Dario Sanchez v. United States, 256 F. 2d 73 (1st Cir. 1958);
>
> Ellis v. United States, supra.

The other claim by the appellant is that he received ineffective representation because his attorney did not appeal to the Ninth Circuit Court of Appeals without payment. The trial court's determination of the general competency of the appellant's attorney and the representation provided, are determinative of this issue. Further, the trial court in denying the appellant's motion

for leave to appeal in forma pauperis, indicated its opinion regarding the lack of objective merit to the defendant's claims for appeal. In this matter, appellant, even though he filed the motion himself, was not prejudiced. The copy of the appellant's petition in the Ninth Circuit, dated February 24, 1966, requesting leave to appeal in forma pauperis, which appears in the District Court's files, contains a statement that the original petition for leave to file in forma pauperis, filed in the District Court, was prepared by his court-appointed counsel.

Failure to file a notice of appeal is not ordinarily a ground for relief under §2255.

> Williams v. United States, 307 F.2d 366
> (9th Cir. 1962).

The court, by inquiry into the records before it, and reference to its own notes and recollection, could wholly and conclusively determine that the appellant's claims of errors at the trial are without merit.

> Dario Sanchez v. United States, 256 F.2d 73
> (1st Cir. 1958);
>
> Navedo Santos v. United States, 305 F.2d 372
> (1st Cir. 1962).

Before failure of counsel to file a notice of appeal becomes error susceptible of §2255 relief, appellant must show more than neglect, and, plain reversible error at the trial. Dodd v. United States, 321 F.2d 240 (9th Cir. 1963). Here, the trial court itself found no such plain reversible error existed. And, the failure of

the appointed counsel to file a notice of appeal, where he is of the opinion that no basis exists for an appeal, is not error. Counsel's unwillingness to file the appellant's motion for leave to appeal in forma pauperis certainly permits and supports the inference he held in that opinion.

Lewis v. United States, 294 F. 2d 209 (C.A. D.C. 1961).

F. THE CLAIM THAT THE SENTENCE WAS INFLUENCED BY IMPROPER FACTORS IS WITHOUT MERIT.

The lower court did not err in denying appellant's claims that it had considered improper matters, when sentencing him to twenty-five years for armed bank robbery.

Appellant claims that the trial court was given improper information about his previous criminal record, which caused the court to be personally biased against him and to impose a more severe sentence than might otherwise be imposed [M. 3, A. 4, 8, 10, B. 4, 8-10, 15, 35]. The complete answer is that, absent gross abuse, the District Court's exercise of discretion regarding the length of sentence will not be disturbed.

United States v. Baysden, 326 F. 2d 629, 631 (4th Cir. 1964).

Here, the court says that the fundamental and almost exclusive element involved in determining the length of sentence was the facts of the offense and that "little thought was given to

the FBI report because it was read to the court in such a way, that it was, in part, unintelligible." (Order denying motion under §2255, pp. 2, 3). This is sufficient to sustain the original sentence and the lower court's holding.

> Parness v. United States, 368 F.2d 327, cert. denied 386 U.S. 1012 (C.A. 3, 1966);
>
> Putt v. United States, 363 F.2d 369, cert. denied 386 U.S. 962 (C.A. 5, 1966).

Appellant's contention that the trial court was biased against the appellant at the time of sentencing because of the same factors, on the authority of the cases of Parness v. United States, supra, and Putt v. United States, supra, is similarly without merit.

Appellant's claim that he was denied the protection of Rule 35, Federal Rules of Criminal Procedure, is clearly not meritorious. The files in this case show that such a motion was made by appellant's court appointed counsel, argued by him and denied by the court.

Appellant's contention that there is something fundamentally and jurisdictionally defective in his receiving a 25-year sentence, while his accomplice received a 6-year sentence, is without merit. The difference itself is no evidence of abuse of discretion and the appellant, in his motion, indicates no unreasonable basis for the disparity. The trial court, in its order denying motion under §2255, clearly indicates a reasonable basis for the sentence given to appellant, and did not sentence the accomplice.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Simpson v. United States, 342 F.2d 643 (C.A. 7, 1965).

Finally appellant claims that fundamental error was committed because no pre-sentence investigation was made before he was sentenced. Rule 32, Federal Rules of Criminal Procedure, permits such a procedure, at the discretion of the trial court. The trial court's procedure was undoubtedly proper, and does not provide a basis for relief under §2255.

Hill v. United States, 368 U.S. 424 (1962).

Errors associated with sentencing are generally not correctible on motions pursuant to §2255, because they can be corrected on motions based on Rule 35, Federal Rules of Criminal Procedure and on appeal.

Anderson v. United States, 338 F.2d 618 (C.A. 9, 1964).

G. THE NINTH CIRCUIT DID NOT ERR IN DENYING APPELLANT LEAVE TO APPEAL HIS CONVICTION IN FORMA PAUPERIS.

Appellant implies that error occurred when, on November 3, 1966, he was denied leave by this Court to appeal in forma pauperis from his conviction [B. 2, 27]. He was sentenced on January 27, 1965 and on March 22, 1965, his motion under Rule 35, Federal Rules of Criminal Procedure was denied. On February 28, 1966, he filed his motion with this Court.

Considering this excessive delay, it is clear that this Court did not err in denying the motion, which was made thirteen months after his judgment of conviction was entered, and about eleven months after his motion for a reduction of sentence was denied.

In re Frogona, 221 F.2d 794 (9th Cir. 1955).

Further, appellant's right to appeal in forma pauperis may not properly be raised on this §2255 motion. He moved the District Court for leave to appeal in forma pauperis. After denial he then raised the point in this Court. After denial here, he petitioned for certiorari to the United States Supreme Court [B. 2, 27, 28]. His contentions have previously been considered and denied. He is reopening the question again.

28 U.S.C. §2255;

Warren v. United States, 311 F.2d 673 (8th Cir. 1963).

H. NO MERIT EXISTS TO APPELLANT'S CLAIM THAT THIS COURT SHOULD HAVE APPOINTED COUNSEL FOR APPELLANT SO THAT HE COULD APPEAL IN FORMA PAUPERIS FROM HIS CONVICTION.

In his brief on appeal, appellant now claims that error occurred because counsel was not appointed to help him proceed with an appeal in forma pauperis [B. 5, 25, 33, 35]. The record shows that the appellant had appointed counsel in the District

Court through March 22, 1965, about two months following his conviction and sentencing. His counsel helped him prepare and file in the District Court a petition for leave to appeal in forma pauperis. No notice of appeal was filed.

About one year later, around February 24, 1966, appellant, appearing in pro per, filed a petition in this Court requesting leave to appeal in forma pauperis. The petition contained no request for counsel. It was properly denied without hearing by this Court as untimely. Ordinarily, an indigent appealing to the circuit court from a denial in the District Court of leave to appeal in forma pauperis, is entitled to counsel to challenge the certification by the District Court that the appeal is not taken in good faith.

> Ellis v. United States, 356 U.S. 674 (1958);
> Johnson v. United States, 352 U.S. 565 (1957).

However, this request to the appellate court, is not an appeal.

> Coppedge v. United States, 369 U.S. 438, 445 Footnote 10 (1962).

And, where the appeal is frivolous, and this appears from the record before the appellate court, then counsel need not be appointed to aid the appellant.

> Coppedge v. United States, supra;
> But cf. Swenson v. Bosler, 386 U.S. 258 (1967).

Nor does counsel need to be appointed where appellant never asks that other counsel be appointed for him in connection with his application to this Court for leave to appeal in forma

pauperis.

Tucker v. United States, 308 F. 2d 798 (9th Cir. 1962).

Appellant had counsel in the District Court. He never appealed his conviction, nor did he ever ask this Court for counsel to assist him. When he finally filed in this Court, he was too late to be heard, and no counsel needed to be appointed.

CONCLUSION

For the reasons herein stated the District Court's denial of appellant's §2255 motion should be affirmed.

Respectfully submitted,

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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ Theodore E. Orliss
THEODORE E. ORLISS

Nos. 22230 and 22230A

In the

United States Court of Appeals

For the Ninth Circuit

PACIFIC COAST ENGINEERING COMPANY, a corporation,
Appellant,

vs.

MERRITT-CHAPMAN & SCOTT CORPORATION, a corporation,
Appellee.

Brief of Appellant

On Appeal from the United States District Court for the Northern District of California, Northern Division

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In the

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Brief of Appellant

On Appeal from the United States District Court for the Northern District of California, Northern Division

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I.

JURISDICTIONAL STATEMENT

This action was filed by appellant in the Superior Court in and for the County of Alameda, State of California. Appellee removed it to the United States District Court for the Northern District of California upon the grounds that appellant was a citizen of the State of California and had its principal office there; that appellee was a citizen of the State of Delaware and had its principal office in the State of New York; and that the amount in controversy exceeded $10,000.

All those things were true (C.Tr. 1-10), and the jurisdiction of the trial court was therefore sustained by 28 U.S.C.A. §§ 1332, 1441. That court has entered final judgment (C.Tr. 202-3), and jurisdiction of this court is therefore sustained by 28 U.S.C.A. §§ 1291, 1294.

II.

STATEMENT OF THE CASE

A. Introduction

This litigation arises out of the Priest Rapid's Project, which involved the construction of a dam on the Columbia River in the State of Washington.

Merritt-Chapman & Scott ("MCS"), the appellee, was the prime contractor on that project. In the Summer of 1957 it entered into a contract with Pacific Car and Foundry Co. ("Pacific") by which Pacific agreed to build and deliver dam gates to MCS. (R.Tr. 102) About the same time MCS entered into a contract with Pacific Coast Engineering Co. ("Paceco") by which Paceco, the appellant, agreed to build and deliver to MCS hoists to raise Pacific's gates. (Ex. 7; R.Tr. 107)

In the Fall and Winter of 1957 Paceco and Pacific reached agreement on the capacities which Paceco's hoists would have to have to raise Pacific's gates, and MCS told Paceco to start work. Paceco did.[1]

A few months later Harza Engineering Co. ("Harza"), the engineer to the public agency for which the project was being built, told MCS that the hoist capacities on the basis of which MCS had told Paceco to start work were wrong. Whether they were wrong turns on the meaning of a section of the specifications (Ex. 4, § 2-03, D, 3, set forth in Find-

1. The facts set forth in this Introductory Statement for which no record references are given are discussed in detail, with record references, at pp. 4-12, below.

ing 7, C.Tr. 187), which provided that the gates Paceco's hoists were to raise were to have a "safety in motion" factor of 1.5.

Paceco and Pacific read that section to mean that the gates when closing had to have a force equal to 1.5 times *moving friction.* That means a force 1.5 times the forces resisting movement (including the surface resistance of the water) just after the gates begin "motion" and start to close. (See Finding 6, C.Tr. 187; R.Tr. 572-3)

Harza read that section to mean that the gates when closing had to have a weight equal to 1.5 times *static friction.* That means a force 1.5 times the forces resisting movement just *before* the gates begin "motion" and start to close. (See Finding 6, C.Tr. 187; R.Tr. 576, 675, 705-8)

The specifications require heavier gates on Harza's reading of them than on Pacific's and Paceco's. (R.Tr. 143-45, 153, 514) The heavier the gates, the heavier the hoists required to raise them. (R.Tr. 540)

Paceco believed that its reading was right, and it told MCS so. It also told MCS that costs would be greater if hoists had to be built with the capacities Harza read the gate specifications to require. It said it was extremely anxious to cooperate with MCS "in any way" to settle the matter. Instead of doing that, MCS cancelled Paceco's contract and got a new contractor to build the hoists.

Paceco filed a complaint which alleged that that cancellation was wrongful, and asked for damages for expenses and lost profits. [C.Tr. 7-9 (State Court complaint);[2] C.Tr. 57 (amendment to complaint)] MCS counterclaimed for $46,823.00 (C.Tr. 18-21), which, it said, was the difference

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2. Paceco also filed a second complaint in the District Court respecting a different matter (C.Tr. 216), on the first cause of action of which it recovered judgment. (C.Tr. 203) It is not involved in this appeal.

between the price at which Paceco had agreed to build the hoists and the price MCS paid the third party whom it engaged to build them.

The trial court, the Honorable Oliver Carter presiding, held that MCS was entitled to cancel Paceco's contract because the specifications meant what Harza said they meant, and because Paceco, so it found, had refused to build the hoists required by the specifications without being paid extra for doing so. (Findings of Fact and Conclusions of Law, C.Tr. 185-197)

Accordingly, the trial court entered judgment against Paceco on its complaint, and awarded judgment for MCS on its counterclaim (C.Tr. 202-3) This appeal followed.

There are two questions presented.

The first is whether the court's findings and conclusions that Harza's reading of the specifications was right is itself wrong as a matter of law. If the answer to that is yes, the second question need not be answered and the judgment against Paceco on its complaint and the $46,823.00 judgment for MCS on its counterclaim must be reversed.

The second question is whether the court's findings and conclusions that Paceco refused to perform its contract, and that that refusal constituted a material breach justifying MCS' cancellation of the contract (Findings 23-24, C.Tr. 192; Conclusions 1-3, C.Tr. 196), are wrong as a matter of law. If the answer to that is yes, the judgment for MCS on its counterclaim must be reversed.

B. The facts

The facts, nearly all of which come from documents and none of which is disputed, are these:[3]

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3. "The rule that findings of fact are entitled to great weight in an appellate court is modified" where those findings are based on documents. *The Natal,* 14 F.2d 382, 384 (9th Cir. 1926); 273

1. MCS and Pacific provided hoist capacity calculations to Paceco for Paceco's use in performing its contract up until Harza disapproved the calculations (August 1957-February 1958).

In August, 1957, before Pacific's and Paceco's agreements with MCS were signed, Pacific sent Paceco some "appropriate" hoist capacities for "use in designing the hoists. . . ." (Ex. 5) Paceco asked Pacific for more information because it could not understand why Pacific's hoist capacities were so large "when compared to the gate weight." (Ex. V) Pacific obliged by sending Paceco some calculations prepared by a consulting engineering firm. (Exs. 6, W; R.Tr. 107-8, 414-15)

In October, after Pacific's and Paceco's agreements with MCS had been signed, Paceco told MCS it was still "having difficulty sizing the hoists" with the information Pacific had provided it, and asked MCS to "advise us as to the hoist capacities required. . . ." (Ex. 9, pp. 1-2, R.Tr. 113) MCS did not answer right away, so Paceco wrote MCS again, and said that without the information it had asked for it could not schedule work "required under the contract." (Ex. 10) MCS replied that it was to consult with Pacific "next week" and that it hoped to forward "all information and data" then. (Ex. 11)

A few days later it sent Paceco Pacific's calculations respecting hoist loads. It also told Paceco to start work on all but two items, since on all but those two Pacific's calculations agreed with Paceco's. (Exs. 12, 12A-B)

U.S. 748, *cert. den.,* 273 U.S. 748 (1926) (findings based on written depositions). In those circumstances, the appellate court "is equally capable of examining the evidence and drawing conclusions from it, and is under the duty of doing so." *United States v. Corporation of The President,* 101 F.2d 156, 160 (10th Cir. 1939) (findings based on "stipulations, records and written statements"); *General Casualty Co. of America v. Azteca Films, Inc.,* 278 F.2d 161, 168 (9th Cir. 1960), *cert. den.,* 364 U.S. 863 (1960); *Bowles v. Carnegie-Illinois Steel Corp.,* 149 F.2d 545, 546 (7th Cir. 1945).

That was the end of October, 1957. During the next few months Paceco did a good deal of engineering and design work on the basis of the hoist load calculations as to which it and Pacific had agreed, because MCS had told it to. (Exs. 12, AA; R.Tr. 117-19, 133-40)

Things moved along. Pacific made some changes with respect to the two items as to which agreement had not been reached in October. In early December, MCS told Paceco what those changes were. (Ex. AK) At the end of the month Paceco sent MCS calculations it had "revised to agree with the changes made by Pacific" and which respected those two unagreed upon items. (Ex. AC; R.Tr. 450-51, 499) MCS advised that Pacific concurred with those revised calculations in mid January, and asked Paceco to send six copies of its calculations for its file and to "submit" to Harza. (Ex. 15)

Paceco sent them on February 4. (Ex. 16) By then it had completed 75 to 80 per cent of its design work on the hoists (R.Tr. 140)

There was dispute at the trial as to whether Pacific and MCS were responsible under the contract for preparing the calculations, or whether Paceco was. Paceco took the position that Pacific and MCS were, and that they had to be, for the very good reason that one cannot design hoists without knowing what they are to hoist, and Pacific, not Paceco, was making the gates which were to be hoisted. (See, e.g., R.Tr. 145, 328; Ex. AJ, pp. 2-3)[4]

The trial court found that that was not right, and that Paceco was responsible for the calculations (Finding 15,

4. Mr. Martin, defendant's witness, also testified that various items which determine hoist capacities, such as gate weight (R.Tr. 974-5) and size of seals (R.Tr. 977), are functions of gate design. See also R.Tr. 998-1000.

C.Tr. 189). But the merit, or lack of it, in that finding is not important for purposes of this argument. What matters is that up through February 4, 1958, when Paceco sent its hoist capacity calculations to MCS for its file and to submit to Harza, Paceco had consistently told MCS that it could not perform without having Pacific's and MCS' calculations; MCS had consistently supplied Paceco with calculations upon request; and everyone's actions showed that everyone thought that, whoever had ultimate responsibility for the calculations, Paceco could not perform its contract without at least having MCS's gate manufacturer's calculations to work upon.[5] Indeed, MCS required Paceco by that contract (Ex. 7, pp. 3-4; R.Tr. 322) to exchange information relating to design with Pacific, and felt compelled to demonstrate to Harza that "hoist design ha[d] been coordinated with . . . [Pacific] as gate designer . . . ." (Ex. AV; R.Tr. 1001)

The parties continued to act in that same way right through September, when MCS cancelled the contract. (See pp. 8-11 below)

2. Harza's disapproval of the calculations (February 20-24, 1958).

At the end of February MCS advised Paceco that Harza, the project engineer, had disapproved the hoist capacity calculations for which Pacific had, through MCS, furnished information, and on the basis of which MCS had told Paceco to go to work back in October. All the calculations which had been sent back and forth between those parties had applied the 1.5 factor of safety in motion to moving frictions, but Harza said that those calculations were inadequate because "the motion factor of safety . . . must be based

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5. The trial court also understood the "practice" to be that information was provided by Pacific and "recalculated" or "rechecked" by Paceco. (R.Tr. 909-10)

on the starting [i.e., static, see p. 3, above] friction factors." (R.Tr. 635-36; Ex. AD)[6] That was the first time that anyone, including Harza, had taken the position that the phrase "factor of safety *in motion*" in the specifications meant static rather than moving frictions. (R.Tr 992, 1010; Ex. 45, Part C-10)

3. MCS continued to provide Paceco with hoist capacity calculations after Harza's disapproval through August, 1958; Paceco continued to work on them.

After Harza had rejected the hoist calculations, Paceco told MCS, just as it had with respect to the first set of calculations, that "to redesign our hoist . . . it will be necessary that new hoist capacities be furnished to us by Pacific Car and Foundry." (Ex. AE) MCS responded, just as it had with respect to the first set of calculations, by sending Pacific's calculations to Paceco, along with some of its own. (Exs. AF, AH)

Paceco used those calculations, just as it had used the first set of calculations with which MCS had provided it, to design the hoists. On June 4, 1958 it advised MCS that "we are proceeding as rapidly as possible with design of the hoists, on which you have furnished complete information, and will complete the design of all hoists upon receipt of final hoist capacity information from you." (Ex. AJ)

MCS and Harza worked on those calculations, which filled a book (Ex. 45), from time to time during the Spring and Summer. (R.Tr. 147, 1030; Ex. AH) They revised them now and again (Ex. AH; R.Tr. 147, 342), and asked Paceco from time to time to check them, which it did. (R.Tr. 142, 146-47; Ex. AG)

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6. Harza's letter made comments on other errors in the calculations of the kind "normally expected" and about which there was "no argument." (R.Tr. 639-40; Ex. AD)

Paceco did not get the last hoist capacity information with which MCS provided it until the end of August, 1958. (Ex. I, p. 1) As it turned out, that was not the "final hoist capacity information," which MCS never furnished to Paceco. (See p. 12, below)

4. Through August 1958, while MCS provided Paceco with new hoist capacity calculations, and while Paceco worked on them, Paceco asked to settle the matter of the extra costs those new calculations required.

Paceco took the position that the revisions Harza required were not its fault because it had "no control in establishing the criteria effecting (sic) gate hoist capacities," and because the revisions were caused by what it considered to be poor design of the gates and by a misreading of the provision in the specifications requiring the gates to have a "safety in motion" factor of 1.5. (Ex. B)

Accordingly, while Paceco asked for and received hoist capacity calculations from MCS, and went to work on those calculations, it talked about the extra costs which those revisions entailed. In March, when Paceco first asked MCS for new hoist calculation information, it told MCS that it "will submit our prices for additional engineering. . . ." (Ex. AE) In April, after MCS had sent its "preliminary" new hoist capacity calculation, Paceco told MCS that the "revisions" will "result in increased cost on the various units." (Ex. B)

Paceco did not refuse to perform unless it were paid more money for those extra costs. It just asked MCS to sit down and talk about it while Paceco proceeded "as rapidly as possible with the design of the hoists" and awaited receiving MCS' "final hoist capacity information to complete the design." (Ex. AJ, p. 4) "In the meantime," it said:

> "*We are extremely anxious to cooperate with you in any way we can to bring the matter of additional costs to a mutually satisfactory conclusion.* In matters of this

nature we believe that letters are a very cold means of communication and therefore request that a meeting be arranged in your office at your convenience to discuss and settle the problem." (Ex. AJ, p. 4) (Emphasis added)

5. Paceco continued to request and work upon hoist capacity calculations in September, 1958. It continued to propose payment to it of its extra costs. It did not refuse to perform.

Paceco worked on designing the larger hoists right through September, 1958. (pp. 7-8, above; R.Tr. 200) It received a set of calculations from MCS at the end of August. (See p. 8, above) It worked on them for about a week. Then, on September 8, it sent them back to MCS with six pages of "supplementary calculations", and an engineering report. (Ex. I)

In the covering letter Paceco pointed out that it was unable to continue engineering work on the contract or purchase materials for fabrication until the "hoist capacities are firmly established and the extra costs incurred by . . . [it] are agreed upon." (Ex. I) Of course that was true; the first stage in the manufacturing of hoists is to establish their capacities, and one does not purchase materials for fabrication until those capacities are established. (R.Tr. 542-44)

It still did not refuse to perform unless it were paid more money. It said "if there is anything we can do to assist your office in settling those capacities with Harza . . . and Pacific . . .," we will do it. (Ex. I, pp. 1-2) It said that the reason it had worked on the calculations MCS had provided it was to help MCS "equitably arrive at a proper hoist capacities (sic) in conjunction with Harza . . . and so instruct . . . [Paceco] as to which hoist capacities shall be furnished on all items. . . ." (Ex. I, enclosure, p. 3) It concluded by ask-

ing "to hear from you very soon regarding the final hoist capacities established as we are unable to proceed . . ." until they are established. (Ex. I, p. 2)

A few days later, on September 12, MCS' Mr. Powell met with Paceco. Mr. Powell asked "that [Paceco] offer some mutually satisfactory arrangement wherein manufacture of the [new] hoist capacities could be started immediately." (Ex. 19, pp. 1-2; see also R.Tr. 158, 160, 342-3, 345) On September 26 Paceco advised MCS that it was "pleased to quote" $85,285.00 "for the additional work," that is, $85,285.00 more than the contract price without that work. (Ex. 19)

But still again it did not refuse to perform unless paid more money. In the first place the "quote" included the cost of supplying D.C. Motors with the hoists, which was itself an extra. (R.Tr. 201; Ex. 14) Moreover, in the same letter in which that "quote" was made, Paceco proposed a "working arrangement," which included payment to it of $59,285.00 to deliver the new hoists "predicated," among other things, upon Paceco's helping MCS obtain an $11,000 extra for the requirement that the safety factor on the hoists was to be 1½ times static, not moving, friction. (Ex. 19, p. 2) If that additional safety factor were not required, the proposed working arrangement provided that Paceco was to be compensated "for any additional engineering design costs" only. (Ex. 19, p. 2)

6. On September 24 MCS cancelled the contract.

MCS did not so much as consider that September 26 proposal for which its Mr. Powell had asked, and never answered it, because two days before it was sent MCS cut Paceco off flat at the pockets by a note "cancelling" the

whole hoist contract. (Ex. 18) Paceco's proposal had been sent before Paceco had seen that note. (R.Tr. 157-58)

MCS' act, without warning, seems to Paceco to have been uncalled for in any case. But that is not the end of the story. At the very time Paceco was working on the proposal for which Mr. Powell had asked and which respected capacities of 1.5 times static friction, MCS, unknown to Paceco, had asked Harza to reduce those capacities from 1.5 to 1.25. (R.Tr. 992-94) Harza had done so a few days before the cancellation. (Ex. 42) MCS never so much as told Paceco about that. (R.Tr. 162-63) But at the same time it cancelled Paceco, it secretly offered another subcontractor the opportunity to bid on the reduced capacity hoists. (Ex. 43)

III.

SPECIFICATION OF ERRORS

1. The Court found that:

> "The true interpretation of Section 2-03,D,3 of Specification 138-100 requires that the gates, plus any ballast, have a dead weight equal to or greater than 1½ times the sum of the resisting forces (wheel friction, rolling friction and seal friction) under static, rather than under running, conditions."[7] Finding No. 10, C.Tr. 188.

The finding is clearly erroneous as a matter of contract interpretation since contrary to the plain meaning of the language used and contrary to the interpretation of all who dealt with the contract or testified at the trial, with the possible exception of the man who wrote the language.

2. The Court found that:

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7. Of course if finding 10 falls, all related findings, such as 17 and 22, fall with it.

"Paceco knew when it made the calculations on which it based its bid: that Section 2-03,D,3, was intended to insure closure of the gates; that the weight of the gates had to exceed 1 times static friction in order that the gates would move at all; that a basic and generally applicable engineering principle is that 'normal loading' or 'design loading' conditions have reference to the most adverse conditions to which the equipment will normally be subjected; that whenever the gates move they must overcome static resisting forces; that static resisting forces, not running resisting forces, are the conditions with respect to which the gates and hoists were to be designed; that 1½ times running resisting forces is in the present case less than 1 times static resisting forces; that if the factor of safety required by Section 2-03,D,3, is interpreted as having reference to running resisting forces, the sole object of the Section, namely, to insure closure of the gates, would be wholly defeated; Paceco knew or should have known and at all material times that the factor of safety of 1½ required by Section 2-03,D,3 has reference to static resisting forces. Nevertheless, Paceco proposed to supply hoists designed for gate weights equal to 1½ times running resisting forces only. It made other material errors and omissions in its gate weight calculations. In this connection, the Court finds the testimony of Witness Martin to be true and correct." Finding No. 17, C.Tr. 190.

That finding is clearly erroneous, illogical and self-contradictory. The court has attempted to find that 100% is equal to 150% and that plaintiff should have known it. The court's finding states in effect that since (1) to insure closure the weight of the gates had to exceed one times static friction, and since (2) 1½ times running friction is less than one times static friction,[8] therefore, closure must

8. A proposition we contest but concede for the purposes of this argument.

be insured by 1½ times static friction. Accordingly, plaintiff knew or should have known that the contract references to "motion" in Section 2-03,D,3 not only meant "static", but 1.5 times static. QED?

3. The court erred in refusing to make plaintiff's proposed findings A., B., and C. (C.Tr. 181)

> "A. Paceco was at all times prepared to supply hoists designed to pull in excess of 1½ times running or moving resisting forces and in excess of one times static resisting forces but not 1½ times static resisting forces.
>
> B. Neither Merritt-Chapman's engineers nor those of Pacific Car calculated hoist capacity at 1½ times static resisting forces. This interpretation of the specifications was first made by Harza after receipt by Harza of calculations prepared and checked by Paceco, Merritt-Chapman and Pacific Car and submitted to Merritt-Chapman.
>
> C. Harza's own calculations prior to issuance of the specifications did not use 1½ times static forces and in some instances arrived at smaller hoist capacities than calculated by Paceco (Exs. 45 & 46)."

These findings are supported by the entire record and there is no evidence to the contrary. Finding "A." alone requires reversal.

4. The Court found that:

> "After being advised of Harza's refusal to approve Paceco's calculations and its reasons, Paceco sought to defend its calculations and finally advised Merritt-Chapman that it would not deliver any hoists of a rated capacity greater than the ones contemplated by its calculations, except upon payment of additional sums amounting to $85,285.00 for hoists of the capacity which Harza said would be required. (Finding No. 23, C.Tr. 192)

"Paceco's refusal constituted a material breach of its contract. At the time of Paceco's refusal it had expended approximately $11,000.00 (on a $229,440.00 contract) in costs for design and hoist calculation work, none of which was of any value to Merritt-Chapman." (Finding No. 24 C.Tr. 192)

On the basis of those findings the court concluded that "Paceco materially and totally breached its contract" and that, accordingly, MCS "rightfully terminated" that contract. (Conclusions 1-3, C.Tr. 194)

Those findings and conclusions are wrong as a matter of law because there is insufficient—in fact no—evidence to support them and because they violate the settled rule that a promisor's statement with respect to intention to perform does not constitute a material, or "anticipatory," breach unless that statement is a "distinct, absolute, and unequivocal" renunciation of the promise and unless the statement is relied on as such by the promisee.

IV.

ARGUMENT

Summary of argument

The specifications said that the gates were to have a safety *in motion* factor of 1.5, and that is what they meant. (Part A, below)

Paceco did not commit an anticipatory breach. It never refused to perform its contract, much less absolutely and unequivocally (Part B, B(1), B(2), below), and nothing it said or did was relied on as any thing of the kind by MCS. (Part B(3), below) MCS' cancellation of Paceco's contract was inexcusable, particularly in the light of the reasons for the anticipatory breach rules. (Part B(4), below)

A. The specifications required a safety in motion factor of 1.5., and meant it.

Section 2-03 D of the specifications prepared by Harza Engineering Company and upon the basis of which Paceco submitted its bid to MCS, provides:

> "3. *Gate Motion Factor of Safety.* All gates shall have a minimum factor of safety in motion of 1.50 under normal loading conditions. This motion factor of safety shall be defined as equal to the ratio of the dead weight of the gate plus any ballast required divided by the sum of the resisting forces, (wheel friction, rolling friction, and seal friction.)" (Ex. 4; Finding 7, C.Tr., 187).

As the court found (Finding 7) and as counsel for MCS conceded in his opening statement (R.Tr. 73, line 24), this is the principal relevant portion of the contract.

1. The specifications provided for a safety factor based on moving frictions, and everyone so understood them.

Beginning in August of 1957, the gate manufacturer, Pacific, provided its calculations of the gate weights and resultant hoist pulls required by these specifications. (Ex. 5) These were checked by Paceco (Ex. 9), reworked by Pacific Car (Ex. 12-B), revised by Paceco to agree with Pacific's changes (Ex. AC), rechecked by Pacific (Ex. 15), reviewed by MCS (Exs. 12, AK, AV), and ultimately submitted to the District Engineer, Harza. In every instance these parties when checking for safety factors applied the "1.5 factor of safety in motion" to the moving frictions, because that is what the specifications said three times— "motion factor of safety" . . . "minimum factor of safety in motion" . . . " This motion factor of safety".

On February 21, 1958, Harza for the first time presented to the contracting parties its insistence that the 1.5 gate

motion safety factor be applied to static and not "in motion" conditions. (R.Tr. 143, 636-7; Ex. AD) That interpretation was unique then, and it still is. In fact, in the calculations made in the office of Harza prior to the letting of bids, the factor of safety was not applied to static conditions (R.Tr. 1010-11), and in many instances Harza at that time reached hoist capacities lower than reached by the contracting parties out here. (Ex. 45, Part C-10, R.Tr. 1010-1013) The independent expert, Dr. Franzini, Professor of Civil Engineering at Stanford, interpreted the specifications as requiring a safety factor applied to moving friction. (R.Tr. 1094, 1106) Furthermore, if the specifications could reasonably have been read to require the larger hoist resulting from a 50% excess safety factor over static friction the original bids would have been in line with the final price paid Berger Engineering, the contractor to whom MCS ultimately awarded the job, particularly since the latter constructed hoists having only a 25% excess safety factor by special agreement. (R.Tr. 992-94, Exs. 42-43)

The only one who may have read the specifications in accordance with the trial contentions of MCS[9] was the individual engineer, Martin of Harza, the very man who wrote the specifications and in midstream decided that he should have required a greater or different safety factor. He may have meant to require a starting or static safety factor in some amount. *He did not do so, however.* See *Gardner v. City of Englewood,* 131 Colo. 210, 282 P.2d 1084, 1090 (1955):

> ". . . Intent is to be determined from the contract itself, if possible to do so, and parties are bound by what the

9. MCS did not call as a witness the man who prepared its own calculations, George Gothro. Presumably, therefore, his testimony would have been adverse to its trial contention. After objection, defendant withdrew a question to Mr. Martin as to what the specifications meant. (R.Tr. 963-65)

> contract says rather than what they say. Also, one bidding for a construction job has a right to rely upon the plans and specifications furnished him by the representative of the owner, and respective obligations of the parties are to be measured in accordance with that particular set of plans and specifications upon which a contractor submitted his bid." (Citations omitted)

See also *Wunderlich Contracting Co. v. U. S.*, 240 F.2d 201 (10th Cir. 1957), *cert. den.* 353 U.S. 950 (1957):

> "A contractor who bids for work has the right to rely on the plans and specifications submitted to him for bidding purposes. The rights of the parties are to be measured by them. It is only through the plans and specifications that he can make an intelligent bid. Burdens other than those contemplated by the contract, may not be placed upon the contractor without additional compensation." (Citations omitted)

2. The specifications cannot be read to require a static safety factor of 1.5, even if they could be read to require a static safety factor greater than 1.

MCS contended in the trial that since gates must go down by themselves from a stopped position, Paceco should have assumed or read in by implication a static safety factor. Perhaps so, but on what basis was Paceco to assume or imply that the static factor was 1.5 as Harza argued during the spring and summer of 1958, or 1.25 as they eventually secretly gave to Berger Engineering to whom the contract was awarded at or before the time Paceco was fired (see pp. 12, 17, above), or some other number?

All that can be implied, if anything, is that the weight must be greater than one times the static resisting forces, and Paceco never contested this. But it was not given the opportunity even to discuss this point with Harza (R.Tr. 342, 344), which continued to insist that the specification required 1.5 times static.

One takes specifications as one finds them and one does not know what the engineer who writes them has in mind. (R.Tr. 1186, 1191) Bidders, like Paceco, were entitled to assume that the engineer preparing the specifications had determined that 1½ times his motion factors would exceed one times his static factors and insure closure, because this is all he said in the provision of the specifications intended to insure closure (Finding 7; see pp. 16, 18, above). Harza's engineer almost did that job. Professor Franzini demonstrated at the trial that although gate weights determined on the basis of motion friction in accordance with the specifications would not quite make it, they would need to be only 41 pounds heavier, in order to exceed one times the static resisting forces. (R.Tr. 1104-1105)

Therefore if Paceco had any duty to go about implying terms into the specifications, perhaps it should have implied that the gates should have been 41 pounds heavier. But that's all. Use of a 50% overload on static factors as Harza desired by afterthought increases the gate weight and resultant hoist capacity by nearly 5,000 pounds. (R.Tr. 1102, 1103) It is foolish to make gates that heavy, and no one ought to be required to imply a foolish term into a contract. (Calif. Civ. Code § 1643)

As a matter of fact, after the gates were actually installed, a test was made on certain of them and a back-pull of 16,500 pounds was detected on the chains during lowering. This was the result of Martin's factor of safety, as he conceded (R.Tr. 1116-1117), and is obviously far in excess of any conceivable gravitational force needed for closure, and, most important, far in excess of anything any hoist builder could be expected to read into the specifications by implication.

It is instructive to refer to some of the results reached in the many sets of calculations in evidence on one of the gates, namely, Item 1, RFDS, as an example of the different

amounts of ballast and hoist pulls reached during the many months that MCS and Harza attempted (unsuccessfully) to fit the larger hoist capacities within the requirements of the original specifications. It is interesting to note that the lowest capacity was reached by MCS itself on April 11, 1958, namely, 6,672 pounds (Ex. 45, § C2—3d and 33rd sheets from end). Harza's pre-bid calculations were 8,870 pounds (Ex. 45, § C-1, fourth sheet). Pacific Car, MCS and Paceco had reached capacities of around 8,000 pounds in the fall of 1957 and Paceco was thereupon ordered to and agreed to build a 10,000 pound hoist on that RFDS gate. (R.Tr. 726, line 21) On April 21, 1958, Harza calculated 10,520 pounds of ballast into this gate resulting in a hoist capacity of 19,215 pounds (Ex. 45, § C2, 73d and 74th sheets from end). When the contract was given to Berger Engineering after plaintiff was cancelled, Berger was given a rated hoist capacity of 16,615 pounds. (Ex. BH) Numerous additional and different results were reached by the witness Martin from Harza Engineering[10] during the trial.

How can one say that Paceco had the duty somehow to divine which one of that lot of calculations was the magic one?

B. Paceco never refused to perform, much less absolutely and unequivocally.

The court found and concluded that Paceco breached its contract by refusing to perform it in accordance with Harza's reading of the specifications. That is wrong to start

10. Mr. Martin, attempting to justify the Harza work, specifications and drawings that were his responsibility, was the only witness called by defendant that was involved in the design or construction of the dam. Mr. Martin's attempts to blame Harza's errors and omissions on his subordinates does not help defendant's case. (R.Tr. 1025, lines 4-11, R.Tr. 1030, lines 6-20) Nor is defendant helped by its failure to call its own Project Engineer who participated in the original calculations which Martin (and now MCS) seek to criticize.

with because Harza's reading of the specifications was wrong. (Part A, above) It is also wrong even if Harza's reading was right, because Paceco did not refuse performance.

A statement by one party to another concerning his willingness, or lack of it, to perform a contract must be "a distinct and unequivocably absolute refusal to perform" to justify the other's cancelling the contract. Such a refusal is called an anticipatory breach. *Hanson v. Slaven*, 98 Cal. 377, 383 (1893). *Accord, e.g., Hertz Driv-Ur-Self v. Schenley Distil.*, 119 C.A.2d 754, 760 (1953); *California C. P. Growers v. Harris*, 91 Cal.App. 654, 656 (1928); *Johnson v. Meyer*, 209 C.A.2d 736, 742 (1962); *Campos v. Olson*, 241 F.2d 661, 663 (9th Cir. 1957):

> "The statement is insufficient to constitute an anticipatory breach because it is not an unequivocal and absolute repudiation of the contract."

Dingley v. Oler, 117 U.S. 490 (1886),[11] "shows how definite and positive an anticipatory breach must be. . . ." 4 Corbin, *Contracts*, p. 906. There plaintiff delivered ice to defendant in year one in consideration of defendant's promise to deliver a like amount of ice to plaintiff in year two. In year one ice was selling for 50 cents a ton. In year two it was selling for $5.00 a ton. Defendant told plaintiff, in year two, that "we must, therefore, decline to ship the ice for you this season, and claim as our right to pay you for the ice, in

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11. *Dingley v. Oler* is a leading case. See, e.g., citing it, *McCloskey v. Minweld Steel Co.*, 220 F.2d 101, 105 (3d Cir. 1955). *Dingley* relied upon a passage from *Benjamin on Sales* and upon *Smoot's Case*, 15 Wall. 36 (1872). *Hanson v. Slaven*, 98 Cal. 377 (1893), perhaps the leading California case on anticipatory breach, relied upon the same two authorities. *Rauer's Law & Collection Co. v. Harrell*, 32 Cal.App. 45 (1916) also relied upon the same two authorities, and cited *Dingley* with approval.

cash, at the price you offered it to other parties here [50 cents], or give you ice when the market reaches that point." 117 U.S. at 494.

The court reversed the trial court's finding that that communication constituted an anticipatory breach, and held, as a matter of law, that it was not sufficiently clear and unequivocal to amount to one. The reason was that defendant's statement "decline to ship" had appended to it a statement of defendant's willingness to perform, although *on defendants own terms*—that is, if the price some day reached 50 cents again. *Id.*, at 501-2.

Campos v. Olson, 241 F.2d 661 (9th Cir. 1957) and *Atkinson v. District Bond Co.*, 5 C.A.2d 738 (1935) are other examples as to how definite and unequivocal a repudiation must be to amount to an anticipatory breach. In *Campos*, defendant boxer told plaintiff, his manager, that "I was leaving." 241 F.2d at 662. In *Atkinson* defendant told plaintiff that their contract " 'is made void and rescinded' on account of erroneous information furnished concerning the job." 5 C.A.2d at 741. Both statements were held not to amount to a breach, and in *Campos* this court, quoting from *Atkinson*, said:

> "A mere declaration, however, of a party of an intention not to be bound will not of itself amount to a breach, so as to create an effectual renunciation of the contract; for one party cannot by any act or declaration destroy the binding force and efficacy of the contract. To justify the adverse party in treating the renunciation as a breach, the refusal to perform must be of the whole contract or of a covenant going to the whole consideration, and must be distinct, unequivocal, and absolute." *Id.*, at 662-63

Paceco never made a statement near so definite or unequivocal as those made in *Dingley, Campos* or *Atkinson*. It

never told MCS that it "declined" to perform, or "was leaving," or that the contract was "void." In June it said "we are extremely anxious to cooperate with you in any way we can to bring the matter of additional costs to a mutually satisfactory conclusion." (Ex. AJ, p. 4) It said nothing more until September. Then it wrote a letter, which said it was unable to continue engineering work "until the hoist capacities are firmly established [which they had not been, see pp. 10, 12, above] and the extra costs incurred by . . . [it] are agreed upon." (Ex. I) Next MCS asked it to submit a proposal, and it did. It "proposed" a "working arrangement" according to which it was to be paid an extra $59,285.00 for the new hoists (or nothing except costs of the extra work to which it had been put if the new hoist capacities turned out not to be required). (See Ex. 19, and pp. 10-11, above)

Since Paceco's statements were far weaker than those in *Dingley, Campos* and *Atkinson,* the case is proportionately stronger for Paceco than for the successful defendants in those cases. Paceco's case is stronger for other reasons, as well:

1. Looked at in the worst light from Paceco's point of view, Paceco's statements were merely offers to perform according to its view of the contract.

In *Dingley* defendant appended an offer to the statement "we decline" to perform. The offer was to perform on defendant's terms only. The court held that that appended offer proved that there had been no anticipatory breach as a matter of law.

Paceco at the very least offered to perform on its terms, which were in accord with its interpretation of the contract. (Ex. 19) Its offer was not merely an appendage to a statement refusing performance, because it never made any such statement. Its offer was in fact the most aggressive thing it did, and it was the very basis for the court's finding that

it had committed an anticipatory breach. (See pp. 26-27, below) In *Dingley* the same kind of offer was held as a matter of law to require reversal of a finding of anticipatory breach based upon the outright statement of refusal to which it was appended!

The two conclusions are poles apart, and this one cannot stand. An offer to perform in accordance with the promisor's interpretation of the contract is not an anticipatory breach, even if that interpretation be erroneous. If it were otherwise, a party to a contract whose construction is disputed would "act at his peril," and "it would amount to a virtual denial of the right to insist upon an honest, but erroneous, interpretation." *Kimel v. Missouri State Life Ins. Co.*, 71 F.2d 921, 925 (10th Cir. 1934); *Mobley v. New York Life Ins. Co.*, 295 U.S. 632 (1935); *Wheeler v. New Brunswick, & C., R.R. Co.*, 115 U.S. 29, 35-7 (1885); *Walker v. Shasta Minerals & Chemical Company*, 352 F.2d 634, 638 (10th Cir. 1965):

> "[A]n offer to perform made in accordance with the promisor's interpretation of the contract, if made in good faith although it may be erroneous, is not such a clear refusal to perform as to constitute an anticipatory breach."[12]

2. Paceco's statements included offers to perform on other than its own terms, and were negotiable.

The defendant in *Dingley* made an offer to perform on its own terms, and left it at that. Paceco made the same offer, but it did not leave it at that. It said it was willing to do "anything" to help MCS settle the hoist capacities. (Ex. I)

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12. Furthermore, because the consequences which follow from an anticipatory breach are as severe as those which follow from actual breach, one would be afraid to exercise that right "to insist upon an honest but erroneous interpretation" if he could not be assured that his "expressions, sought to be converted into a renunciation of the contract, shall not be enlarged beyond their strict meaning." *Dingley v. Oler*, above, 117 U.S. at 502.

It said "we are extremely anxious to cooperate with you in any way we can to bring the matter of additional costs to a mutually satisfactory conclusion," it asked to talk about it (Ex. AJ, p. 4), it did talk about it, and, in its last September letter, which crossed with MCS' note cancelling the contract, it "proposed" a "working arrangement," which gave Paceco less than its own terms. (Ex. 19; see pp. 9-12, above)

And it did more than talk. It kept working "as rapidly as possible with the design of the hoists," (Ex. AJ, p. 4), continued to check the calculations with which MCS supplied it (pp. 8-10, above), and with the first of its two September letters furnished MCS with six pages of calculations to help MCS "equitably arrive at a proper hoist capacities (sic) . . .". (Ex. I, p. 1, and enclosure, p. 3)

An offer to cooperate "in any way," an invitation to talk, and a "proposed working arrangement" are by their terms negotiable, and a negotiable offer by definition is not "absolute" or "unequivocal" enough to constitute an anticipatory breach. See *Walker v. Shasta Minerals & Chemical Company,* above, 352 F.2d at 638:

> "[T]he letter . . . did not constitute an unconditional demand in the sense that it was not subject to further negotiations."

That is even more clearly true where, like Paceco, the party making the negotiable offer is doing work on the contract at the time he makes it. See *Hoggson Bros. v. First Nat. Bank of Roswell,* 231 Fed. 869, 872-73 (8th Cir. 1916), *cert. denied,* 241 U.S. 679 (1916) (closely analogous case involving the construction industry and increased costs; appellate court reversed trial court's finding of breach). *Cf. Wilton v. Clarke,* 27 C.A.2d 1 (1938) (willingness to discuss contract shows statement not an anticipatory breach).

3. A refusal not treated as a repudiation by the other party is not an anticipatory breach; MCS did not treat Paceco's "refusal" as such.

The court found that Paceco refused to deliver hoists of the capacity Harza required except upon payment of $85,285.

That $85,285 figure appears only in the letter that Paceco sent MCS on September 26 (Ex. 19), and nowhere else. Accordingly, the "refusal" the court found could not have occurred before September 26.[13]

MCS sent its note cancelling the contract on September 24. Consequently MCS could not in the nature of things have treated the September 26 letter as a refusal (even assuming it could amount to one, which it couldn't), and therefore that letter could not have been an anticipatory breach.

"In order to charge a party with repudiation of a contract it must appear that his refusal to perform was absolute and unequivocal *and it must have been treated and acted upon as such by*" the other party. *Wilton v. Clarke,* 27 C.A.2d 1, 4 (1938) (emphasis added); *California C. P. Growers v.*

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13. Mr. Ramsden, Paceco's president, testified that the September 26 letter was a "confirmation" of a proposal previously made to Mr. Powell, orally. (R.Tr. 160) However, the previous proposal seems to have been the $59,000 "working arrangement" described on pages 2 to 3 of the September 26 letter.

Mr. Ramsden testified the proposal "made verbally and in this letter" was one in which Paceco was to "gamble on somewhere between $15 and $25,000 that we are right," and that "gamble" is part of the $59,000, not the $85,000, offer. See R.Tr. 344-45; Ex. 19, pp. 2-3.

Even if the $85,000 quote had been made at the time of the oral conversation, the finding that Paceco refused to proceed unless paid an extra $85,000 is clearly erroneous, since the $85,000 quote, if made at all, was certainly accompanied by the $59,000 "proposed working arrangement." (See R.Tr. 344-45, 160-61) Anyway, MCS did not treat the oral proposal, whatever it was, as an unequivocal, final repudiation, since when it was made it "requested that we [Paceco] offer some mutually satisfactory arrangement wherein manufacture of the hoist capacities could be started immediately." (Ex. 19, p. 2)

Harris, 91 Cal.App. 654, 656 (1928); *Cook v. Nordstrand,* 83 C.A.2d 188, 195 (1948):

> ". . . It is clear that appellants' conduct indicated that they regarded the escrow as material and that they did not treat the oral statement of defendant as an absolute refusal to perform. 'The refusal to perform must be treated and acted on as a distinct and unequivocal absolute refusal to perform the promise.'" p. 195

See also *Campos v. Olson,* 241 F.2d 661 (9th Cir. 1957), which held that a letter written by an alleged repudiator could not have constituted an anticipatory breach because the other party did not see it until litigation arose; and *Rauer's Law & Collection Co. v. Harrell,* 32 Cal.App. 45, 56 (1916), which held that an uncommunicated "repudiation" was not an anticipatory breach, "whatever . . . [the alleged repudiator's] state of mind."

Since the court's findings with respect to anticipatory breach (Findings 23 and 24, C.Tr. 192) are based upon the September 26 letter, they must fall. But they would have to fall, anyway, even had they been based upon any prior communication (and even assuming any such communication was unequivocal enough to constitute an anticipatory breach, which none was), because MCS did not treat any prior communication as an absolute refusal, either.

The September 8 letter (Ex. I) The Paceco letter which immediately proceeded the September 24 letter was written on September 8. (Ex. I) But, four days later, on September 12, MCS asked "that we [Paceco] offer some mutually satisfactory arrangement whereby manufacture of the [new] hoist capacities could be started immediately." (Ex. 19; see p. 11, above)

One does not treat a "refusal" as a repudiation of a contract while, after receiving it, he asks the other party to work up a plan to perform that same contract. See *Hanson*

v. Slaven, 98 Cal. 377 (1893); *Wilton v. Clarke,* 27 C.A.2d (1938); *Atkinson v. District Bond Co.,* 5 C.A.2d 738 (1935). Indeed, in *Dingley v. Oler,* 117 U.S. 490 (1886), the Supreme Court held that a party had not treated a communication as a repudiation where, after receiving it, he told the alleged repudiator that he hoped "you will take a more favorable view upon further reflection. . . ."

The June 4 letter The Paceco letter which immediately preceded the September 8 letter was written on June 4. (Ex. AJ) MCS did not treat that letter as a repudiation either, both because its answer to the later September 8 letter showed it did not, and because after it received that June 4 letter it continued to work on calculations and sent them to Paceco to be worked upon by it. One does not treat a refusal as a repudiation, when, after receiving it, he takes steps, and gets the other party to take steps, toward performance under the contract. See *Cook v. Nordstrand,* above, 83 C.A.2d 188 (1948).

In any event, there is no evidence that plaintiff did treat any communication from Paceco as an absolute and unequivocal repudiation. That alone is fatal to MCS. *Cf. Campos v. Olson,* 241 F.2d 661, 663 (9th Cir. 1957) (finding no anticipatory breach in part because there was no evidence as to repudiator's "reaction to the statement [of refusal]").

4. MCS' cancellation was precipitous and uncalled for.

One reason for the rule requiring a repudiation to be absolute and unequivocal is that the party to whom a not wholly absolute and unequivocal repudiation is made may easily find out what it was meant to be, and squeeze any equivocation out of it; for all he need do is ask. Therefore

hat is what he ought to do. See *Frank Bowman Co. v. Lecato*, 292 Fed. 73, 78 (4th Cir. 1923):

> "[G]ood faith calls at the very least for a request for correction with notice that if the correction were not made the contract would be rescinded."

Accord, *New England Oil Corp. v. Island Oil Marketing Corp.*, 288 Fed. 961, 966 (4th Cir. 1923), *cert. denied,* 263 U.S. 702 (1923).

That reason is particularly applicable to this case, because Paceco had told MCS that it was "extremely anxious to cooperate" about the matter, and because, since the parties were in frequent contact (see pp. 8-12, above), MCS could have asked Paceco what its intentions were with no trouble at all.

Furthermore, the hoist capacities had not been finally set until late September, when MCS cancelled. Obviously no one could build the hoists until those capacities were established. (See pp. 10-12, above) That being so, MCS had no need to rush to a conclusion as to what Paceco intended to do, and that is all the more reason why good faith required it to ask Paceco what its intentions were.

But there is more. MCS failed to tell Paceco what the final hoist capacities which had been established were, although those final capacities were less than those which had been the subject of dispute, and although Paceco had asked MCS on September 8 "to hear from you very soon regarding the final hoist capacities established as we are unable to proceed . . ." until they are. (Ex. I; see pp. 10-12, above)

Add to that that Paceco had been telling MCS for a good year that it could not perform without at least having MCS' and Pacific's calculations to work upon, and everyone, including MCS, agreed that that was so; MCS had honored Paceco's request for those calculations all that time and

had asked Paceco to work on them; and all those calculations that MCS sent Paceco all that time were simply academic, because none was final. (pp. 7, 12, above)

MCS did give those final hoist capacities to a third party, to whom it also gave a contract to build the reduced capacity hoists. (Exs. 42, 43) Its failure to give Paceco the same information underlines its failure to act in good faith, but it also kills its case as a matter of simple logic. For how can one anticipatorily breach a promise to provide hoists having a capacity which he has never so much as heard about?

MCS cancelled the contract precipitously and without warning. Then it rushed off to have someone else do the work. It had no reason for acting that way. It should not be rewarded for it. See *McCloskey & Co. v. Minweld Steel Co.,* 220 F.2d 101, 104 (3d Cir. 1955).

Segan Construction Corp. v. Nor-West Builders, 274 F.Supp. 691 (D. Conn. 1967), which was decided a few months ago, is squarely in point. Plaintiff carpenter and defendant contractor had a dispute about what defendant owed plaintiff for services plaintiff claimed to be extras. Plaintiff stopped work while the dispute was going on and submitted his bill for work to date, including compensation for the disputed extras. Without warning, the contractor cancelled the contract and engaged someone else to finish the job. The court held that the contractor had no right to do that, because the carpenter's submittal of the bill along with his stopping work "did not constitute breach of the contract by absolute and unequivocal abandonment." As to the contractor's having treated the carpenter's actions as an anticipatory breach, the court said this:

> ". . . [His] conclusion [that the carpenter had repudiated] was premature, reached without attempted negotiation, discussion or investigation." *Id.,* at 697.

The same is true of what MCS did in this case, and MCS' action ought to meet with the same end.

CONCLUSION

The trial court's judgment should be reversed for the reasons set forth in this brief.

Dated: March 15, 1968.

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: March 15, 1968.

Norman B. Richards

(Appendix Follows)

Appendix

Table of Exhibits Referred to in Brief

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JUN 24 1968

Nos. 22230 and 22230A

In the

United States Court of Appeals

for the Ninth Circuit

PACIFIC COAST ENGINEERING COMPANY, a corporation,

Appellant,

vs.

MERRITT-CHAPMAN & SCOTT CORPORATION, a corporation,

Appellee.

Brief of Appellee

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Nos. 22230 and 22230A

In the

United States Court of Appeals

for the Ninth Circuit

PACIFIC COAST ENGINEERING COMPANY, a corporation,
Appellant,

vs.

MERRITT-CHAPMAN & SCOTT CORPORATION, a corporation,
Appellee.

Brief of Appellee

I.

INTRODUCTORY STATEMENT OF THE CASE

Pacific Coast Engineering Company (Paceco) agreed to supply hoists for use in the fishways of the Priest Rapids Dam and Merritt-Chapman & Scott Corporation (Merritt-Chapman) agreed to pay a fixed sum for them.

The size of the hoists to be provided was to be determined by Paceco as provided in the specifications. In due time Paceco proposed to tender hoists of a specified size. Merritt-Chapman was instructed by the Engineer to reject this proposal for the reason that the hoists proposed were

far too small. Merritt-Chapman advised Paceco to provide larger hoists capable of performing as required by the contract. Paceco refused to do so unless it was paid more money, contending that the specifications should be interpreted so as to require hoists which, by Paceco's own admission, will not do the job they are required to do; and that the hoists proposed by it conformed to the specifications so interpreted.

Merritt-Chapman, contending that the specifications can and must be interpreted so as to provide hoists which will do the job that they are required to do, and that Paceco's proposed hoists were far too small on any interpretation, cancelled Paceco's contract and bought larger hoists elsewhere.

Paceco sued Merritt-Chapman for its lost profits. Merritt-Chapman counterclaimed for damages equal to the extra cost of buying the larger hoists elsewhere.

The trial court found Paceco's proposed hoists did not comply with the contract, that Paceco refused to supply larger hoists unless paid more money, and gave Merritt-Chapman judgment on its counterclaim for the cost of obtaining the larger hoists elsewhere.

The foregoing facts emerge from reasonably complex engineering calculations. The Evidence, Findings and Conclusions will be more easily understood if, at the outset, we provide this Court with the following statement of the case, which is later more thoroughly developed, with appropriate references to the record.

The Priest Rapids Dam is shown in Exhibit AL. It includes 18 Telescopic Orifice Entrance Gates (OG Gates), 7 Left Entrance Weir Gates (LEW 1, LEW 2 & 3), 3 Right Entrance Weir Gates (REW 1, 2, 3), 1 Right Flood Draw-

down Stop Gate (RFDS), 1 Left Flood Drawdown Stop Gate (LFDS), 1 Gravity Supply Intake Gate (GIG), 1 Supply Conduit Closure Gate (CCG), 1 Surface Control Gate (SC-1), and hoists to lift them.

Generally speaking, the gates are rectangular steel frames, covered with steel plates, on one or both sides, with heavy rubber seals along their edges to make them water tight.

The gates are fitted with wheels at their sides so that they may move down, when closing, and up, when opening, along steel guides.

They are fitted with steel links on the top of their upper beams to which cables are attached so that they can be lifted by their hoists.

In some instances, the OG Gates, for example, the gates are composed of two "leafs", or sections, so that when fully raised the lower leaf hangs from the upper leaf, and the length of the gate is the combined length of both leaves; and when fully lowered, the upper leaf slides down behind the lower leaf, after the lower leaf comes to rest at the bottom of its channel, and the upper leaf then is supported by a wheel stop plate attached to the guides.

These features can, with some trouble, be seen in Exhibits AL 1 and 2.

Whenever the gates move, they must overcome enormous frictional and hydraulic forces resisting movement.

There is friction where the wheel surfaces make contact with the guides, called "wheel rolling friction", and where the bearing surfaces make contact with the axles, called "wheel bearing friction".

The heavy rubber seals are deflected from their normal shapes where they make contact with the surfaces adjoin-

ing the gate edges and pressure is exerted on these surfaces by reason of the tendency of the seals to return to their normal shape, causing friction between the seals and the adjoining surfaces, called "seal deflection load".

Where the water on one side of the gate is higher than on the other, the great pressure is exerted against the gate and seals from the high side and is transmitted to the seal surfaces. This pressure, called "hydraulic load", increases seal deflection load, if it operates in the same direction as the seal deflection load, and it relieves seal deflection load, if it operates in the opposite direction.

All of these various frictional forces are much greater when the gate starts to move (static, or breakaway, frictional forces, or loads) than they are after the gate has started to move (running or moving frictional forces or loads).

The gates had to be made heavy enough to move downwards under the force of gravity. If they were not heavy enough as originally constructed, then ballast had to be added to increase their weight as much as necessary.

Since they could not *start* to move downwards without overcoming static or breakaway loads, they had of necessity to be of a weight in excess of breakaway loads. This is a fact of common, as well as engineering, experience.

In addition, the specifications required that they have extra weight to provide a "factor of safety", called "Gate Motion Factor of Safety", to insure closure.

The specifications provided for the Factor of Safety in the following words:

> "3. *Gate Motion Factor of Safety.* All gates shall have a minimum factor of safety in motion of 1.50 under normal loading conditions. This motion factor of safety shall be defined as equal to the ratio of the dead weight of the gate plus any ballast required divided by the sum of the resisting forces (wheel fric-

tion, rolling friction, and seal friction)." (Ex. 4; Finding 7, C.Tr. 187).

In addition, the specifications stated the necessary coefficients of friction, for both static and running conditions, so that both static and running resisting forces could be calculated.

Notwithstanding that 1.5 times running friction is less than static friction and produces gates that will not move at all, much less with a factor of safety, Paceco interpreted the specifications as requiring gates weighing 1.5 times running frictions.

For this reason, and by reason of numerous other more serious errors and omissions in its hoist calculations, the hoists proposed by Paceco were much too small.

Nevertheless, Paceco persistently refused to correct its calculations or to supply larger hoists unless Merritt-Chapman agreed to pay it more money. Accordingly, Merritt-Chapman cancelled this part of Paceco's contract, negotiated reduction in the factor of safety from 1.5 static frictions to 1.25 static frictions, and bought the necessary larger hoists from another supplier.

The Court gave Merritt-Chapman judgment for the excess of the price for which Merritt-Chapman bought the larger hoists, over the price for which Paceco agreed to supply them.

II.

SUMMARY OF FACTS* FOUND BY THE TRIAL JUDGE

The contract for construction of the Priest Rapids Dam on the Columbia River required Merritt-Chapman & Scott Corporation (Merritt-Chapman), the Contractor, in a manner approved by Harza Engineering Company (Harza),

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*A Chronological and Summary Statement of Evidence is found in Appendix 1.

the Engineer, (1) to determine the weight of gates heavy enough to close under the force of gravity, with a factor of safety intended to insure closure, (2) to determine the capacity of hoists necessary to lift such gates, without overload, and (3) to provide such gates and hoists for use in the operation of its fishways. (Finding 5, CT 186; Finding 7, CT 187; Finding 12, CT 188).

Determination of the weight the gates would have to be in order to go down is done by calculation of the forces resisting movement. These are various frictions and hydraulic pressures and are greater when the gate starts in motion (static resisting forces) than they are after the gate has started to move (running resisting forces). The plans and specifications gave the coefficients of friction and other design criteria, with which, knowing the dimensions of the gates, one could calculate the required weight of the gates and hoist capacities.* (Finding 6, CT 187).

At the invitation of Merritt-Chapman, Appellant Pacific Engineering Company (Paceco) and Pacific Car and Foundry Company (Pacific) prepared bids for both the hoists and gates, stating prices for each separately, and submitted their bids to Merritt-Chapman. In preparing their bids, Paceco and Pacific prepared calculations of the weight of the gates and capacity of the hoists required by the contract. (Finding 13, CT 188).

In response to the Paceco and Pacific bids, Merritt-Chapman offered the gates to Pacific and the hoists to Paceco at the prices specified respectively by each in its bid, with the proviso that Paceco and Pacific exchange all necessary information. Paceco and Pacific assented. (Finding 14, CT 189).

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*An Example Hoist Capacity Calculation is set forth in Appendix 2.

A Chart showing the calculations in evidence and their relationship to the gates and to each other appears in Appendix 3.

Subject to the requirement of Harza's approval and the isk that it might lawfully withhold it, Paceco's subcontract equired it to calculate the required hoist capacities and to lesign and supply hoists in accordance with the contract. Finding 15, CT 189).

Paceco proceeded to prepare and submit to Merritt-Chapman, for transmission to Harza for approval, calcuations of hoist pulls, using the gate design and dimension nformation supplied by Pacific. In making the calculations vhich it submitted to Harza, Paceco did not rely on anyhing said to it by either Merritt-Chapman or Pacific, exepting the dimensions involved in Pacific's gate design. Finding 20, CT 191). Rather, Paceco adhered to the estinating calculations prepared by it in making its bid, which ncluded errors and omissions of Paceco's origination, both heoretical and mathematical, causing resulting hoist capacties to be far too low. (Findings 16, 17 and 18, CT 191). Neither Merritt-Chapman nor Pacific nor anyone else assumed Paceco's responsibility for calculation of hoist capacties. (Finding 19, CT 191).

When Harza examined Paceco's calculations, it rejected hem because of their errors and consequent inadequate hoist capacities. (Finding 22, CT 191).

Paceco, rather than correcting its calculations, defended hem, and Merritt-Chapman was forced to make the revised calculations of correct hoist capacities. (Finding 23, CT 192).

When Merritt-Chapman advised Paceco of the capacities required, Paceco did not perform, or offer to perform under protest reserving its right to extra compensation if its original calculations were correct. Rather, it refused to proceed unless Merritt-Chapman capitulated to Paceco's demands for $85,285.00 of extra compensation. At this time

Paceco had expended only $11,000.00 on its $229,400.00 contract. (Findings 23 and 24, CT 192).

Faced with Paceco's failure and refusal to perform, with the fact that Paceco's work to date was valueless and with the necessity of proceeding promptly to obtain the necessary hoists in order to perform the prime contract and avoid the heavy penalties entailed in delays in completion, Merritt-Chapman cancelled this part of Paceco's work, negotiated a reduction in the factor of safety (from 1.5 to 1.25 times static resisting forces) and consequent gate weight and hoist capacity, and bought the hoists of reduced capacity elsewhere for $46,823.00 more than Paceco's price of $229,400.00. (Findings 25, 26 and 27, CT 192, 193).

Paceco then sued Merritt-Chapman for lost profits, claiming that the smaller hoists which it planned to provide were all that the contract required, and that its errors were the fault of others, in any case.

Merritt-Chapman counterclaimed for its damages equal to the extra costs incurred in obtaining the larger hoists elsewhere.

The District Court, after observing the witnesses and hearing their testimony, reported in 1234 pages of Reporter's Transcript, and after considering over 100 exhibits received in evidence, concluded that the hoists which Paceco claimed were large enough were in fact too small, that Paceco materially breached its contract by failing and refusing to perform it, that Merritt-Chapman had suffered damages equal to the extra expense of buying the hoists elsewhere, and was entitled to judgment in that amount, with costs.*

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*The portion of the Judgment awarding Merritt-Chapman the sum of $3,460.01 is not appealable, since it is based on the stipulation of the parties. (CT 194, Finding 29; CT 71, Stipulation Establishing Counterclaim).

III.

APPELLANT'S VERSION OF THE FACTS

Appellant's version of the facts ignores or contradicts parts of the Findings, without suggesting that they are not supported by the evidence, stating contentions of fact made to and rejected by the Trial Judge (Opening Brief of Plaintiff, CT 72; Reply Brief of Plaintiff, CT 126). To this extent, the facts stated by Appellant must simply be disregarded.

IV.

QUESTIONS PRESENTED

1. Does the evidence sustain the Findings and Conclusions that Paceco breached its contract?

2. Does the evidence sustain the Findings and Conclusions that Merritt-Chapman had a right to terminate Paceco's contract?

V.

ARGUMENT

A. The Evidence Sustains the Findings and Conclusions That Paceco Materially Breached Its Contract.

(1) PACECO, NOT MERRITT-CHAPMAN, HAD THE DUTY TO MAKE, AND IN FACT MADE, THE HOIST CAPACITY CALCULATIONS.

The District Court so found. Findings 7, 15, 18, 19, 20 (CT 187, 189, 191); Memorandum of Opinion, pp. 5, 6, 7 (CT 159, 160, 161).

The Findings are sustained by the evidence.

From Exhibit 4, Specifications 138-100, it appears that:

The Prime Contract placed the duty to calculate hoist pulls on Merritt-Chapman as part of "Design". (Ex. 4; Specifications 138-100, Part I, Section 2-03).

As between Merritt-Chapman and Paceco, the hoist Subcontractor, and Pacific, the gate Subcontractor, this duty was placed on Paceco, as the following show:

(a) Hoist Pull Calculations Are Part of Hoist Design, Not Gate Design, Under the Specifications.

Section 2-03 of Specification 138-100 is labelled: "Design". Subsection B, headed "Design Loading; Conditions", speaks separately of gate design and of the work of determining hoist loads.

Subsection D, labelled: "Design Criteria", states the governing criteria and Subparagraph 5, labelled: "Hoists", provides: "(a) *Design Load.* The hoist capacity and design loading shall be determined from the weight of gate as governed by the above criteria, in addition to the following factors: etc."

Thus, the specifications show the calculation of hoist capacities is, as common sense suggests, part of the work of designing the hoists, not the gates.

(b) Hoist Pull Calculations Are Normally Part of Hoist Design, Not Gate Design.

In another phase of the Priest Rapids Project, Paceco contracted to furnish hoists and gates, and subcontracted the gates. Hoist pull calculations remained part of its work (RT 532-535), not the work of the gate manufacturer.

Calculation of hoist pulls is ordinarily the first step in designing a hoist. (RT 540, 542, 546).

(c) Paceco Intended and Understood That Hoist Pull Calculations Were Part of Its Work Under This Contract.

Paceco intended by its proposal for both gates and hoists (Ex. 3), to compute hoist pulls as part of its work (RT 318). Merritt-Chapman's order (counteroffer) of September 19, 1957, PR 2913 (Ex. 7), does not shift the burden of calculating hoist pulls. It orders hoists "in accordance with your proposal of August 7, 1957" and directs Paceco to exchange "all necessary . . . information required to insure

complete and proper design and manufacture of all . . . related parts . . . with Pacific Car & Foundry." Moreover, it conforms exactly to Paceco's hoist prices, which included a charge for hoist pull calculations as a part of design and an extra charge for the extra risks involved. (RT 333).

If Paceco had any doubt whether its work under PR 2913 included hoist pull calculations, that doubt was removed when Merritt-Chapman told Paceco it was looking to Paceco for design computations for submittal to Harza (Ex. 8). This occurred before Paceco accepted the Merritt-Chapman counteroffer on October 16, 1957 (Ex. Z).

Paceco did in fact compute hoist capacities and they were not "given" to Paceco by Merritt-Chapman or Pacific.

Appellant says:

> "1. MCS and Pacific provided hoist capacity calculations to Paceco for Paceco's use in performing its contract up until Harza disapproved the calculations (August 1957-February 1958)." (Opening Brief on Appeal, p. 5)

Appellant so contended below. (Opening Brief of Plaintiff, Sections I and II, CT 75, 76). (RT 90, 711, 712; Ex. 12).

The District Judge found to the contrary. Findings 15, 18, 19 and 20 (CT 189, 190, 191). These Findings are not challenged and each is fully sustained by the evidence, as summarized in Appendix 1.

Appellant says that Merritt-Chapman, ". . . told Paceco to start work on all but two items, . . ." and that thereafter ". . . Paceco did a good deal of engineering and designing work . . . because MCS told it to." (Opening Brief on Appeal, pp. 5 and 6).

In its brief below, Appellant contended that Appellee is estopped to question the hoist calculations because Appellee agreed to them and ordered Appellant to proceed upon them. (Opening Brief of Plaintiff, Section VI, CT 92).

This contention was rejected by the Trial Court because it was against the evidence, as summarized in Appendix 1.

(2) PACECO'S CALCULATIONS SHOULD HAVE APPLIED, BUT FAILED TO APPLY, THE GATE MOTION FACTOR OF SAFETY TO STATIC RESISTING FORCES.

The Trial Court found:

Finding 7. The principal relevant portions of the contract documents are as follows:

Specification 138-100, Sections 1-01, 1-03, 2-01, 2-03, and 2-04, Contract Documents 138-2, SC-20.

Section 2-03, D, 3, which reads as follows:

> "*Gate Motion Factor of Safety.* All gates shall have a minimum factor of safety in motion of 1.50 under normal loading conditions. This motion factor of safety shall be defined as equal to the ratio of the dead weight of the gate plus any ballast required divided by the sum of the resisting forces (wheel friction, rolling friction and seal friction)",

is intended to insure closure of the gates.

Finding 8. It is a basic and generally applicable principle of engineering that "normal loading" or "design loading" conditions have reference to the most adverse conditions to which the equipment will normally be subjected. The conditions most adverse to movement of the gates, whether downward or upward, are static, rather than running, resisting forces.

Finding 9. One and one-half (1½) times running frictions is in the present case less than one (1) times static frictions. The gate motion factor of safety of 1½, if applied to running frictions, would produce gates which would not be heavy enough to close at all.

Finding 10. The true interpretation of Section 2-03,D,3, of Specification 138-100, requires that the gates, plus any

ballast, have a dead weight equal to or greater than 1½ times the sum of the resisting forces (wheel friction, rolling friction and seal friction) under static, rather than running, conditions.

Finding 17. Paceco knew when it made the calculations on which it based its bid: That Section 2-03,D,3, was intended to insure closure of the gates; that the weight of the gates had to exceed 1 times static friction in order that the gates would move at all; that a basic and generally applicable engineering principle is that "normal loading" or "design loading" conditions have reference to the most adverse conditions to which the equipment will normally be subjected; that whenever the gates move they must overcome static resisting forces; that static resisting forces, not running resisting forces, are the conditions with respect to which the gates and hoists were to be designed; that 1½ times running resisting forces is in the present case less than 1 times static resisting forces; that if the factor of safety required by Section 2-03,D,3, is interpreted as having reference to running resisting forces, the sole object of the Section, namely, to insure closure of the gates, would be wholly defeated; Paceco knew or should have known and at all material times that the factor of safety of 1½ required by Section 2-03, D, 3, has reference to static resisting forces. Nevertheless, Paceco proposed to supply hoists designed for gate weights equal to 1½ times running resisting forces only. It made other material errors and omissions in its gate weight calculations. In this connection, the Court finds the testimony of Witness Martin to be true and correct.

These Findings are sustained by the evidence as follows:

Finding 7, states, from Exhibit 4, the relevant section of

the plans and specifications and that the gate motion factor of safety is intended to insure closure.

From Plaintiff's Exhibit 4, Specification 138-100, it appears that the relevant positions of the Contract Documents are as follows:

Section 2-03 is labelled "*Design*"; Subsection B, headed "*Design Loading Conditions,*" requires the Contractor to follow the design criteria for both gates and hoists in determining hoist loads; Subsection D, labelled "*Design Criteria,*" states the governing criteria, and Subparagraph 5, labelled "*Hoists,*" provides "(a) *Design Load.* The hoist capacity and design loading shall be determined from the weight of the gate as governed by the above criteria, in addition to the following factors: . . ." (there are then given the various coefficients of friction for both starting and running conditions).

That the gate motion factor of safety was intended to insure closure is established by the testimony of the Chief Engineer of Appellant, Mr. Zweifel (RT 572-573), as well as by the testimony of Professor Franzini (RT 1104).

Finding 10 states that the gate motion factor of safety is 1½ times static resisting forces, not running resisting forces.

The evidence supporting this and the related Findings is as follows:

1. The gate motion factor of safety is intended to insure closure and Paceco knew it. (Findings 7 and 17, CT 189-190).

Paceco's Chief Engineer, Mr. Zweifel (RT 1611-1613), and Paceco's witness, Professor Franzini (RT 1104), so testified.

2. The gates had to weigh more than 1 times static resisting forces in order to move at all and Paceco knew it. (Findings 9 and 17, CT 188-190).

Messrs. Zweifel and Franzini, again (RT 611-623, 1104).

3. A basic and generally applicable engineering principle, known to Paceco, is that normal loading or design loading conditions have reference to the most adverse conditions to which the equipment will be subjected. (Findings 3 and 17, CT 188-190).

Again, Messrs. Zweifel and Franzini so stated. (RT 619, 1108).

4. Static, not running, resisting forces are the most adverse of the conditions resisting movement, and Paceco knew it. (Findings 6, 7 and 17, CT 187, 190). (Messrs. Zweifel and Franzini, RT 611-618, 1109).

5. Gates weighing 1½ times running resisting forces will not start to move at all and Paceco knew it. (Findings 9 and 17, CT 188, 190; Ex. AA, Ex. AX; Zweifel, RT 617-623, 904; and Franzini, RT 1104-05).

6. Interpretation of the gate motion factor of safety to require gates weighing 1½ times running resisting, rather than static resisting forces, will wholly defeat the purpose of the factor of safety, namely, to insure closure, and Paceco knew it. Finding 17 (CT 190); (Zweifel, RT 618-623).

7. It is a general rule in interpretation of engineering plans and specifications to choose among alternatives the interpretation which works, rather than one which will not work, and Paceco knew it. (Zweifel, RT 618-623).

8. Since:

The gate motion factor of safety is intended to insure gate movement;

The gate motion factor of safety is 1.5 times frictional forces of some kind;

There are only two kinds of frictional forces, namely, running and static;

Gates will not move at all unless they weigh more than static frictional forces;

1.5 times running frictional forces is less than static frictional forces;

Therefore, the conclusion that the gate motion factor of safety is 1.5 times static frictional forces is inescapable, from a common sense standpoint, under the principles of interpretation used by engineers generally, and under the applicable rules of interpretation of contracts set forth below:

> "The contract must receive such interpretation as will make it operative . . . and reasonable . . . if it can be done without violating the intention of the parties." (Civil Code § 1643).
>
> "The writing will be interpreted as a whole and even part will be interpreted with reference to its general purpose." (3 Williston on Contracts, § 613.3).
>
> "An interpretation which gives a reasonable meaning to all its provisions will be preferred to one which leaves a portion of the writing useless or inexplicable." (3 Williston on Contracts, § 619).
>
> "Where the meaning to be given to an agreement . . . remains uncertain . . ., the following rules are applicable:
>
> (a) An interpretation which gives a reasonable lawful and effective meaning to all manifestations of intention is preferred to an interpretation which leaves a part of such manifestations unreasonable, unlawful or of no effect . . .".

Illustration of Clause (a):

"1. A grants B the exclusive right to manufacture certain pipes under patents owned by A. B promises to pay 'for the license hereby granted a royalty of 50¢ per 1000 feet on all pipes for an output of 5,000,000 feet or less per year, and for all pipes of an output of over 5,000,000 feet per year at the rate of 30¢ per 1000 feet'. The contract provides for two rates of payment, one on the first 5,000,000 feet, and the other on the excess, and not a rate of 30¢ per 1000 feet on all when the output is over 5,000,000 feet per year. The more literal reading is unreasonable, since it would involve a smaller payment for 6,000,000 than for 4,000,000 feet." (Restatement of Contracts, § 236(a) and Illustration 1).

"If the general purpose of a contract is ascertained, the language of its provisions must be construed with reference to that purpose and so as to subserve it." (17 Am.Jur.2d, Contracts, § 246 p. 637).

These principles are commonly applied in order to make a contract serve its known purpose:

McCready v. Bullis, 59 C.A. 286 (1922): Provision in a ease of a farm, requiring lessor to provide a "well", means a well sufficient to irrigate the farm, not any well.

Oberweise v. Poulos, 124 C.A. 247 (1922): Where a restrictive covenant is to take effect on approval of the signatures of 140 property owners, all of several owners of a parcel of property are a single 'property owner', not each, separately, a property owner.

Woolford v. Electric Appliance, Inc., 24 C.A. 2d 385 (1938): Where a lease of a market required the lessor to provide refrigeration display equipment, it means such equipment adequate to keep the meat cold.

Under these principles, the gate motion factor of safety has to be 1.5 times static, not running, frictions, since it is

intended to insure gate closure, and 1.5 times running frictions provides no such insurance, whereas, 1.5 times static frictions does.

Moreover, the phrase "in motion" reads "in the act, process, or incident of changing place of position", if we substitute for the word "motion" its dictionary definition. (Webster's New International Dictionary, Second Edition, Unabridged). Breakaway or static resisting forces are in effect when the gates are "in the act, process or incident of changing place or position", for it is only after motion starts that running resisting forces take effect (RT 707, 708).

(3) PACECO'S CALCULATIONS CONTAINED NUMEROUS ERRORS AND OMISSIONS WHICH WERE FAR MORE SIGNIFICANT THAN THE GATE MOTION FACTOR OF SAFETY ERROR.

Moreover, Paceco's hoist capacities were grossly inadequate by reason of numerous material errors and omissions in its calculations, other than its gate motion factor of safety error. Finding 17 (CT 190).*

These errors are numerous and of great variety. Examples, in the case of the OG Gates, are: failure to add sufficient ballast to see that the upper leaf will move inde-

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*The evidence of these errors and omissions is set forth in detail in exhibits in evidence as follows:

Gate	Paceco Final Calculations	Correction	Explanation	Paceco Prebid Calculation	Correction	Explanation
OG	AA	AN, AO	AW	S	BA	BD
LFDS	AC	AP, AQ	AY	N	BC	BF
RFDS	AC	AR, AS	AZ	M	BC	BF
LEW2&3	AA	AT, AU	AX	R	BB	BE

The evidence is sumarized in Exhibit BG.

Mr. Martin's testimony concerning these exhibits is contained in the Transcript, pages 857-962, and was believed by the District Court (Finding 17, CT 190).

pendently of the lower leaf; in determining deflection, Paceco used 3 lbs. per inch of seal, whereas, it should have used 4.5 lbs. per inch of seal; Paceco entirely omitted to calculate seal deflection loads for the upper leaf in determining the amount of ballast to be added to it; Paceco entirely ignored the effect of three feet head of water.

The upshot of this evidence is that, in order to lift gates of a weight merely equal to static frictions, Paceco's hoists would have been overloaded, in the case of the OG Gates, by 7,000 lbs.; in the case of the LEW Gates, by 6,000 lbs.; in the case of the RFDS Gates, by 4,000 lbs.; and in the case of the LFDS Gates, by 7,000 lbs.

Adding to the gate weights ballast to provide the gate motion factor of safety of 1.50 times static resisting forces would have increased the overload, in the case of the OG Gates, by 2,549 lbs.; in the case of the LEW Gates, by 1,744 lbs.; in the case of the RFDS Gates by 1,770 lbs.; and in the case of the LFDS Gates, by 1,893 lbs.

Thus, it appears that Paceco's proposed hoists were grossly underpowered by reason of its errors and omissions, ignoring its gate motion factor of safety errors.

4) PACECO'S PROPOSED HOIST CAPACITIES WERE TOO WEAK EVEN IN TERMS OF PACECO'S CALCULATIONS.

The Court found (Finding 11, CT 4) that hoists had to have a rated capacity of at least 100% of static forces resisting movement of the gates upward.

Mr. Zweifel, at the trial, said, at first, that rated or nominal hoist capacity need not be as great as breakaway loads. After extensive cross-examination, he finally admitted that rated or nominal hoist capacity had to equal or exceed breakaway loads (RT 553-590).

It appears that, in the cases of the LEW 2 & 3 Gates and the 18 OG Gates, Paceco's hoists were underpowered,

even in terms of their own calculations, as the Court found (Finding 22, CT 7; Ex. AA, Ex. AC).

B. The Evidence Sustains the Findings and Conclusions That Merritt-Chapman Rightfully Terminated Paceco's Contract.

(1) PACECO DID REPEATEDLY AND UNEQUIVOCALLY REFUSE TO PERFORM UNLESS MERRITT-CHAPMAN CAPITULATED TO ITS DEMAND FOR MORE MONEY.

The Court so found. (Finding 23, CT 8; Memorandum of Opinion, p. 11, CT 165).

The Finding is supported by the contemporary evidence, which shows that on February 21, March 10, April 25, June 4, September 8, September 12, and September 26 (Exs. C, AE, B, AJ, I; RT 157; Ex. 19), Paceco made demands for more money, culminating in refusals to proceed unless they were agreed to.

It is supported by Mr. Ramsden's reluctant concession at the trial:

(RT p. 219, line 7 through 23):

> "Mr. Lennihan: Q. Mr. Ramsden, you, your company, absolutely refused to deliver to Merritt-Chapman any hoists other than those mentioned in the Merritt-Chapman letters of October 29th and January 16th, unless you were paid additional compensation; isn't that so?
>
> A. No, that isn't so.
>
> "The Court: What is so?
>
> "The Witness: What is so is that we offered two or three different propositions, to deliver various types of hoists, either the original hoists or second hoists, but there was never any refusal.
>
> "The Court: Now, I want to go to the gist of Mr. Lennihan's question. If you were going to deliver the hoists as specified on the dates mentioned, you were going to have to have more money; is that right?
>
> A. On later dates, yes.
>
> "The Court: That is what he asked you.

Based upon the documentary evidence, with or without he testimony of Mr. Ramsden, the District Court was learly entitled to find, as it did, that Paceco refused to roceed with its contract unless Merritt-Chapman capituated in Paceco's demand for more money.

2) PACECO WAS IN ACTUAL, AS WELL AS ANTICIPATORY, BREACH WHEN MERRITT-CHAPMAN CANCELLED.

We have seen that Paceco was obligated to do the hoist alculation work. We have seen that Paceco tried and ailed to supply suitable calculations for Bid Items 1, 2, and 9. We have seen that it never provided calculations or Bid Items 3, 4, 5, 6, 7 and 10.

After its calculations on Bid Items 1, 2, 8 and 9 were ejected, it refused to provide further calculations, blaming thers for its errors and claiming that others had the duty o do the hoist calculations. (Ex. AD, AE, AI, AJ, I). These were actual and continuing breaches.

As the Court said in its Memorandum of Opinion, at page 11 (CT 165):

> "Under California law a present breach of contract plus a repudiation of the contract results in a total breach of the contract. . . . The total breach excuses the injured party and gives rise to a cause of action for damages. Restatement of Contracts, Sections 313, 314, 317, 318 and 275; *Coughlin v. Blair,* 41 C.2d 587, 588."

Paceco's posture here was the same as the subcontractor n *Coughlin v. Blair, supra,* of which the Court said:

> "Defendants could not reasonably expect plaintiffs to continue indefinitely to treat the breach as partial (599) . . . Parties who have totally breached a contract cannot force performance on injured parties (603) . . . Damages are awarded in an action for breach of con-

tract to give the injured party the benefit of his bargain. (605) . . ."

VI.

CONCLUSION

For the foregoing reasons the Judgment should be affirmed.

Dated: June 17, 1968.

Respectfully submitted,

ALVIN J. ROCKWELL
DAVID W. LENNIHAN
BROBECK, PHLEGER & HARRISON

By DAVID W. LENNIHAN
Attorneys for Appellee.

CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: June 17, 1968.

DAVID W. LENNIHAN

(Appendices Follow)

Appendix 1

CHRONOLOGICAL AND SUMMARY STATEMENT OF EVIDENCE

July 19 - August 7, 1957

Paceco prepared its estimating or prebid calculations for Items 1 through 10 (Exs. M through T).

August 7, 1957

Paceco made its bid, for hoists and gates separately, basing its prices on its prebid calculations. (Ex. 3)

August 23, 1957

Pacific sent Paceco a statement of the hoist pulls as calculated by Pacific thinking that Paceco might provide the hoists under subcontract for Pacific. (Ex. 5, RT 104, 105)

August 28, 1957

Paceco prepared a comparison of its hoist pulls with those of Pacific and noted wide discrepancies for Items 1, 2, 8 and 9. (Ex. U).

August 29, 1957

Paceco wrote asking to see Pacific's underlying calculations (Ex. V).

September 9, 1957

Pacific sent down calculations prepared for it by a naval architect (Brinck) (Exs. 6 and W). Paceco found these to be "completely irresponsible" (RT 717).

September 20, 1957

Paceco revised its own calculations on Items 1, 2, 8 and 9 by substituting the gate weights shown in Ex. W. (Ex. X). Except for this change, it ignored Pacific's calculations.

October 1, 1957

Paceco requested Merritt-Chapman to help in the resolution of the hoist pull problem (Ex. 9).

October 29, 1957

Merritt-Chapman transmitted to Paceco Pacific's underlying calculations (Exs. 12, 12A, 12B). Merritt-Chapman suggested Paceco proceed with design on items 1 through 7 and 10 where it and Pacific Car are in agreement. Paceco and Pacific were not in fact in agreement. Paceco assumed Merritt-Chapman was suggesting that Paceco proceed on the basis of its own calculations. (RT 750) Paceco knew that Merritt-Chapman was not "giving" any hoist capacities to Paceco (RT 711, 712)

Paceco proceeded with design work, not because Merritt Chapman told it to do so, but because Paceco elected to do so, in anticipation of Harza's approval, in order to save time and money, and subject to the risk of Harza's disapproval This is common practice. (RT 495, 543, 566; Memorandum of Opinion, pp. 8, 9; CT 162, 163).

November 19, 1957

Paceco revised its calculations for Items 1, 2, 8 and 9 to reflect the wheel and axle diameter shown in Pacific's calculations (Ex. 12B; Ex. AA). Except for this change, i ignored Pacific's underlying calculations.

December 9, 1957

Merritt-Chapman made certain comments and sugges tions concerning sheets 3 and 4 of Ex. AA (Ex. AK).

December 23, 1957

Paceco responded to Merritt-Chapman's comments o sheets 3 and 4 by revising them in a way which largel

gnored Merritt-Chapman's comments. (Ex. AC, RT 498-00).

ebruary 4, 1958

Paceco transmitted to Merritt-Chapman for submittal) Harza its hoist calculations for Items 1, 2, 8 and 9. (Ex. 6; Exs. AA, AC; RT 904). These calculations were based n Paceco's estimating calculations (Exs. X, AA, AC; RT 31, 432, 489-491, 499-500, 714, 715) with hoist calculations iggled to fit its bid price (RT 743-754). It did not then or iter submit any calculations for items 3, 4, 5, 6, 7, or 10.

ebruary 21, 1958

Harza told Paceco by telephone that its hoist capacities ere inadequate, and Paceco wrote Merritt-Chapman, blamig Pacific and Merritt-Chapman, saying it would claim xtra charges for extra design work. (Ex. C)

ebruary 24, 1958

Merritt-Chapman wrote Paceco transmitting Harza's leter rejecting Paceco's calculations and asked for revisions s soon as possible. (Ex. AD)

larch 10, 1958

Paceco wrote Merritt-Chapman re-stating its demand for xtra *engineering* compensation and asserting that Pacific iust provide the new hoist capacities. (Ex. AE)

larch 25, 1958

Merritt-Chapman sent Paceco computations of breakaay loads for the first 7 items (Ex. AF)

pril 14, 1958

Merritt-Chapman sent Paceco revised computations for ie first 8 Items (Ex. AH).

April 25, 1958

Paceco wrote Merritt-Chapman to the effect that it will cost more money *per unit* because of the increase in hoist pulls and blamed these increases on Pacific Car's gate design and on the use of static frictions in determining the factor of safety. (Ex. B)

May 16, 1958

Merritt-Chapman wrote Paceco saying Paceco had contracted to provide the calculations and to design and provide adequate hoists and noted that Paceco had failed to discharge its obligations and that Merritt-Chapman undertook to do the hoist pull calculation work to save time. (Ex. AI)

June 4, 1958

Paceco wrote Merritt-Chapman reiterating its statement that increases in hoist capacities will result in increased charges and are caused by gate design. The letter persists in seeking to place responsibility for hoist pulls on Pacific Car. (Ex. AJ)

September 8, 1958

Paceco wrote Merritt-Chapman stating that it would not proceed with the contract until the hoist capacities were firmly established and the extra costs to be paid Paceco agreed to. The letter continues to fix upon others the responsibility for hoist pulls. (Ex. I)

September 19, 1958

Paceco told Merritt-Chapman (Mr. Harry Wilson) of the increased prices it was demanding. (Ex. 19; RT 157)

September 24, 1958

Merritt-Chapman cancelled Paceco's contract stating that it had been in default and breach for some time and that it had made it clear that Paceco would not comply with its agreements. (Ex. 18)

September 26, 1958

Paceco confirmed by letter the demands made by it orally September 12, 1958. (Ex. 19)

October 14, 1958

Merritt-Chapman purchased hoists from Berger Engineering Company for $267,263.00 (Ex. BH)

Appendix 2

Hoist capacity equals 100% times the most adverse forces resisting upwards movement of the gates of a weight equal to at least 150% times the most adverse forces resisting downwards movement of the gates.

Accordingly, you calculate as follows:

STEP 1 Calculate forces resisting movement downward *under the most adverse conditions.*

STEP 2 Be sure that the submerged gate weight equals or exceeds 150% times the resisting forces determined in STEP 1.

STEP 3 Determine the total forces resisting movement upwards *under the most adverse conditions.*

STEP 4 Set hoist capacity at 100% or more of the total forces calculated in STEP 3.

An example of such calculation is Exhibit Q, a pre-bid calculation prepared by one of Paceco's engineers. The calculation shows:

"Wheel-Rolling Friction Load:"

*

Step 1. "Starting, Lw = .025 x 31,300 = 1096#"
Step 1. "Running, Lw = .025 x 31,300 = 786#"

"Seal Friction":

Seal Load Area = 1.5 x 268 = 402 inches (Side Seal only)"

"Seal Hydro Load = 402 x 1.3 = 522"

*

Step 1. "Starting, Ls = 1.5 x 522 = 784#"
Step 1. "Running, Ls = 0.9 x 522 = 470#"

"TOTAL HOIST LOAD

(1) *Gate Submerged:*

Step 1.	"Total friction load, starting, = 3(1880)*	5640#*"
Step 2.	"Total wt. 3 leaves submerged =	8430#"

"(Safety Factor: = $\frac{8430}{*5640}$ = 1.5%† — ok.)"

Step 3.	"(a)(starting): Total hoisting required: = 8430 + 5640 =	14,070#*"
	"Total friction load running = 3(1252) =	3,760#"
	"(b)(running): Total hoisting required: = 8430 + 3760 =	12,190#"

"(2) *Gate Dry Load:* = 0"

"Total hoisting forces required: = wt. of gate dry = 9858#"

Step 4. "Design hoist to life live load of 7 tons."

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*Most adverse for wheel and rolling friction is Starting:	1096#
Most adverse for seal hydro friction is Starting:	784#
Total of frictions for each of 3 leaves of gate =	1880#
Total of frictions for all 3 leaves of gate = 3 x 1880 =	5640#
Total of most adverse resisting forces plus submerged gate weight =	14,070#

†Factor of Safety here used is 1.5 x starting frictions (RT 511).

Appendix 3

Item	Gate	Est. Calc. 8/57	Pcf Pulls 8/23	Com-parison 8/28	Brinck Summry. 9/9	1. Paceco Revision 9/20	Pcf Calc. 10/29	2. Paceco Revision 11/19	Gothro Comments 12/9	3. Paceco Revision 12/23	Martin's Corrections of Final Calc.	Martin's Errors & Omissions of Final Calc.	Martin's Corrections Est. Calc.	Martin's Errors & Omissions Est. Calc.	Martin's Calc. Summary
1	RFDS	M	5	U	W	X	12b	AA			AR AS	AZ			BF
2	LFDS	N	5	U	W	X	12b	AA			AP AQ	AY	BC	BF	BF
3	GIG	P	5	U	W										
4	CCC	O	5	U											
5	LEW 1, 2, 3	Q	5	U											
6	LEW 1	Q	5	U											
7	LEW 4	Q	5	U											
8	LEW 2, 3	R	5	U	W	X	12b	AA	AK	AC	AT AU	AX	BB	BE	BF
9	OG 1-18	S	5	U	W	X	12	AA	AK	AC	AN AQ	AW	BA	BD	BF
10	SC 1	T	5	U											

1. Based on Paceco's Estimating Calculations revised only to use Paceco's Gate Weights found in Ex. W.
2. Based on Ex. X revised only to use Paceco's wheel and axle diameters found in Ex. 12b. These are Paceco's Final Calculations for Items 1 and 2.
3. Based on Ex. AA, revised to [illegible]

Nos. 22230 and 22230A

In the

United States Court of Appeals

For the Ninth Circuit

PACIFIC COAST ENGINEERING COMPANY, a corporation,
Appellant,

vs.

MERRITT-CHAPMAN & SCOTT, a corporation,
Appellee.

Appellant's Reply Brief

On appeal from the United States District Court for the Northern District of California, Northern District

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SUBJECT INDEX

TABLE OF AUTHORITIES

Nos. 22230 and 22230A

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I.

INTRODUCTION

Appellee's Brief says there are two questions presented, first whether the evidence sustains "the findings and conclusions that Paceco breached its contract," and second whether it sustains "the findings and conclusions that Merritt-Chapman had a right to terminate Paceco's contract." (Ans. Br. 9)* The answer to both questions is no.

*Appellee's Answering Brief is referred to as "Ans. Br. ...."

Appellee's brief takes them up one at a time, and this brief does too.

The questions are separate, and appellee has properly kept them so. The court did not find that any breach which is the subject of the first question was material, or entitled appellee to terminate (Part A, below). The court found that appellant refused to perform the contract without more money, and that *that* was a material breach which entitled appellee to terminate (Part B, below) That refusal is the subject of the second question only. Therefore even if the answer to the first question is yes, the judgment must be reversed unless the answer to the second question is also yes.*

II.

ARGUMENT

A. Appellee's claim that "the evidence sustains the findings and conclusions that Paceco materially breached its contract."

Appellee's claim that the evidence sustains the findings and conclusions that Paceco "materially breached" its contract (Ans. Br. 9) is, to start with, misstated, because the court did not find that any of the alleged breaches which are its subject was "material." (pp. 4-7, below) It is also wrong, because the four propositions on which it is based are wrong, irrelevant, or both.

1. *First proposition.* The first proposition on which appellee's claim is based is that "Paceco, not Merritt-Chapman, had the duty to make, and in fact made, the hoist capacity calculations." (Ans. Br. 9)

Appellant conceded for the purposes of its argument here that that was so (O.Br. 6-7)†, and appellee's elaborate

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*If the answer to the first question is no, the judgment must be reversed whatever the answer to the second. (See, Appellant's Opening Brief, p. 4)

†Appellant's Opening Brief is referred to as "O.Br. ...."

argument about it (Ans. Br. 9-11) is therefore beside the point.

Appellant's Brief did say that "MCS and Pacific provided hoist capacity calculations to Paceco for Paceco's use in performing its contract up until Harza disapproved the calculations (August 1957-February 1958)." Appellee contends that "the District Judge found to the contrary," citing Findings 15, 18, 19 and 20, C.T. 189-191. None of those findings is to the contrary, and none could be; MCS and Pacific signed six letters which prove that what appellant said is true. (Exs. 5, 6, 11, 12, 12B, 15; O.Br. 5-7; see also, remarks of trial court, R.Tr. 907-910)

That truth is not relevant because it demonstrates that Paceco was not obligated to make the final calculations, but because the calculations Pacific and MCS "provided" Paceco for its "use" show that all the parties understood that the safety "in motion" factor referred to moving, not static, frictions.* (O.Br. 16-17)

2. *Second proposition.* The second proposition on which appellee bases its claim that Paceco "materially breached" its contract is that "Paceco's calculations should have applied, but failed to apply, the gate motion factor of safety to static resisting forces." (Ans. Br. 12)

This was indeed the primary and only really significant thrust of the dispute between the contractors' engineers who read the specifications and the engineer to the public agency who wrote them. However, here again appellee's

---

*MCS continued to send calculations to Paceco after Harza's rejection, right up to the date of termination. Paceco continued to work on them until then, and that is also relevant to show the inpropriety of MCS terminating Paceco without warning. See, pp. 9-12, below; O.Br. 8-11, 28-30)

brief refuses to be relevant or responsive. The evidence reviewed by appellee under this heading (Ans. Br. 14-15) in numbered paragraphs 1-7 is all unimportant except paragraph numbered 6.*

> "6. Interpretation of the gate motion factor of safety to require gates weighing 1½ times running resisting, rather than static resisting forces, will wholly defeat the purpose of the factor of safety, namely, to insure closure, and Paceco knew it. Finding 17 (CT 190); (Zweifel, R.T. 618-623)."

This last quoted statement is important but patently erroneous. Gates weighing 1½ times running resistance will not defeat the purpose of the factor of safety, namely, to insure closure so long as they weigh more than *one* times static resisting forces (Ans. Br. 15, para. 2). The point made by Paceco to MCS and Harza, by Paceco in the court below and by Paceco in its opening brief here is that 1½ times running as specified, or more than one times static as appellee says is necessary to cause the gates to go down, do not equal 1½ times static. In other words, you can not get 1½ out of 1+. (O.Br. 18-20) People who want 1½ times static should say so in the specifications.

Appellee's paragraph eight is appellee's conclusion, and it is based upon all the premises set forth in each of its paragraphs one through seven. Since paragraph six is a

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*As appellee's brief notes, its points 1, 2, 3, 4, 5 and 7 are generally conceded by Paceco's own testimony and we concede them for this argument, except that No. 5 should have the words "necessarily in all cases" added and read "Gates weighing 1½ times running resistance forces will not *necessarily in all cases* start to move at all and Paceco knew it." That does not alter the fact that Paceco was entitled to assume that the engineer who prepared the specifications had determined that in *this case* gates weighing 1½ times running resisting forces will close. (O.Br. 17-19)

false premise, paragraph eight is false for the same reason it is.*

In any event, whoever was right or wrong, the court did not find that Paceco's having submitted calculations based on its good faith and reasonable interpretation of the specifications was a material breach entitling MCS to terminate. It could not have done so, because that event respected a small part of the contract, because those calculations were superseded shortly after they were submitted, anyway, and because, so far from treating their submission as a material breach, MCS asked Paceco to work upon the calulations which superseded them, which it did. (pp. 9-12, below)

3. *Third proposition.* The third proposition on which appellee bases its claim that Paceco "materially breached" its contract is that "Paceco's calculations contained numerous errors and omissions which were far more significant than the gate motion factor of safety." (Ans. Br. 18)

That is not so.

The court found that when Harza rejected Paceco's calculations it "advised" that they "were much too low and that the gate motion factor of safety must be applied to starting or static frictions, and pointed out numerous other errors in Paceco's calculations." (Finding 22, C.T. 192) It did not find that those "numerous other errors" constituted a material breach, and could not. They were of the kind "normally expected," there was "no argument" about them,

*Nor is appellee helped on this feature of its argument by its reference to the court's finding that the testimony of witness Martin was true and correct. What Martin testified or thought about his specifications is not important. What he wrote in the specifications or communicated to bidders before the bids is important. Nothing about 1½ times static was written or spoken in that stage of the proceedings.

and they concerned no one. (R.Tr. 634-640; O.Br. 8, n. 6)* What did concern the parties was that Paceco's calculations applied the safety factor to moving frictions. That was Harza's "number one objection" to them, that was the "guts" of Harza's rejection letter (R.Tr. 639), and that was the part of the rejection letter to which Paceco objected (R.Tr. 639-641) (Ex. I, enclosure, p. 1)† Indeed, appellee told the court that that was the source "of major friction" (R.Tr. 73; O.Br. 16), and the court said it was "the center of controversy." (Memorandum of Judgment, C.T. 163, ll. 17-20)

Moreover, it makes no difference whether there were "numerous other errors" in Paceco's calculations or not, because after they were rejected MCS itself "undertook" to make the calculations, and asked Paceco to help it, which it did. (O.Br. 8-11) Paceco's original calculations were "superseded". (Ex. AH; pp. 9-12 below) Accordingly, whatever errors were in them to start with is academic.

4. *Fourth proposition.* The fourth proposition on which appellee bases its claim that Paceco "materially breached"

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*The court's Finding 17, C.T. 190, states that Paceco's calculations contained "other material errors and omissions," but it relates to *bid* calculations, not those which Harza rejected. Moreover, even if the errors in those which Harza rejected were "material," it is not so, and the court did not find, that the mere submission of calculations with "material" errors constituted a material breach. (See, pp. 9-12, below)

†Paceco also objected to Harza's putting "an additional hydraulic load" on two of the gates. (R.Tr. 640; Ex. I, enclosure, pp. 1-2) There is no finding that appellee was right on that one, much less a finding that the original calculations' omission of hydraulic load was a material breach, or that such loads were indicated on the drawings by Harza as the specifications required. So far as safety factors are concerned, the court found that Mr. Martin's testimony was true (Finding 17, C.Tr. 190), and Mr. Martin testified that one may properly apply the safety factor to static forces alone, and may properly omit to apply it to hydraulic load at all (which is the same as buoyancy). (R.Tr. 1016)

its contract is that "Paceco's proposed hoist capacities were too weak even in terms of Paceco's calculations." (Ans. Br. 19)

That proposition is beside the point for the same reasons that appellee's third proposition is: The calculations' "errors and omissions" on which the proposition is based concerned no one, and the calculations which contained them were superseded, anyway.

B. Appellee's claim that "the evidence sustains the findings and conclusions that Merritt-Chapman rightfully terminated Paceco's contract."

Appellee's claim (Ans. Br. 20) that "the evidence sustains the findings and conclusions that Merritt-Chapman rightfully terminated Paceco's contract" is based upon two propositions, both of which are wrong.

1. *First proposition.* The first proposition upon which appellee's claim is based is that "Paceco did repeatedly and unequivocally refuse to perform unless Merritt-Chapman capitulated to its demand for more money," and "the court so found." (Ans. Br. 20, citing Finding 23, C.T. 192)

The court did not so find. What it did find is set forth at Appellant's Opening Brief, pp. 14-15, and it is this:

> "After being advised of Harza's refusal to approve Paceco's calculations and its reasons, Paceco sought to defend its calculations and finally advised Merritt-Chapman that it would not deliver any hoists of a rated capacity greater than the ones contemplated by its calculations, except upon payment of additional sums amounting to $85,285.00 for hoists of the capacity which Harza said would be required.
>
> Paceco's refusal constituted a material breach of its contract." (Findings 23-24, C.T. 192)

Appellee pronounces that that finding "is supported by the contemporary evidence," but appellee does not say one word as to how. (Ans. Br. 20) The "evidence" is documents (Exs. C, AE, B, AJ, I and 19), a page of testimony (R.Tr. 157) identifying one of the documents (Ex. 19), and nothing else. Appellant's Opening Brief discussed those documents at length. (See, pp. 8-11, 22-28) They establish that the court's finding is contrary to the evidence, and is wrong as a matter of law, for the reasons and upon the authorities set forth at Opening Brief, pages 20-31. Appellee does not answer one of those reasons or challenge one of those authorities.* Its failure to do so proves that it can't.

Appellee also claims that the court's finding is "supported by Mr. Ramsden's reluctant concession at the trial," which appellee undertakes to quote. (Ans. Br. 20) First, appellee has left out of the passage the two sentences which conclude it. They show that the passage's subject was a document, Ex. B, and that Mr. Ramsden was merely being asked to characterize it (R.Tr. 219-220):

> "The Witness: But I didn't—I don't think it is fair to ask me if we refused.
>
> "The Court: That may be an arguing work (sic; should be "word"), but Mr. Lennihan certainly has the right to argue that that is what it meant. Now, if you want to argue what the letter means, you can argue it to me.
>
> "Mr. Lennihan: I would just like to introduce the letter in evidence.
>
> "The Court: Oh, yes, certainly, if it isn't already in."

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*The only case appellee cites, *Coughlin v. Blair*, 41 C.2d 587 (1953), concerned an actual failure to perform on time which constituted a total breach, and had nothing to do with anticipatory breach, much less a refusal to perform unless paid more money.

Second, Mr. Ramsden's statement is entirely irrelevant, whatever it means, because it was made at trial, not before, and all the "contemporary evidence" is documentary. (Ans. Br. 20; O.Br. 8-12, 22-28) A statement cannot constitute an anticipatory breach unless "treated and acted upon as such by" the party to whom it is made, and a statement made at trial, when the contract to which it refers has already been terminated, cannot be acted upon at all. See, *Campos v. Olson,* 241 F.2d 661, 663 (9th Cir. 1957) (letter is not anticipatory breach "because it did not come to the attention of appellant until . . . litigation was under way"); *Rauer's Law & Collection Co. v. Harrell,* 32 Cal. App. 45, 66 (1916) (testimony at trial as to state of mind is not anticipatory breach because it was not communicated before trial); O.Br. 26-28.

2. *Second proposition.* The second proposition upon which appellee bases its claim that the evidence "sustains the findings that Merritt-Chapman rightfully terminated" is that "Paceco was in actual, as well as anticipatory, breach when Merritt-Chapman cancelled."

The "actual breach," according to appellant, is that "after its calculations on Bid Items 1, 2, 8 and 9 were rejected, . . . [Paceco] refused to provide further calculations, blaming others for its errors and claiming that others had the duty to do the hoist calculations." (Ans. Br. 21)

That is a theory which appellee did not try in the trial court. It is also false, and there is no finding to support it. The court found that Paceco "finally advised that it would not deliver any hoists of a rated capacity greater than the one contemplated by its calculations, except upon payment of additional sums . . .," and that *that* "refusal constituted a material breach. . . ." That is the basis on which the court decided that Merritt-Chapman rightfully

terminated. The court did not find that Paceco "refused to provide further calculations" or that any such refusal constituted a material breach, and that is not the basis on which the court decided that Merritt-Chapman rightfully terminated. (See, Findings 22-23; Memorandum of Judgment, C.T. 165)*

It could not have done so. Two weeks after Paceco's calculations were rejected by Harza, Paceco advised that "to redesign our hoists in accordance with Harza Engineering Company's letter, it will be necessary that new hoist capacities be furnished to us by Pacific Car and Foundry . . . [A]*s soon as we receive the revised capacities from Pacific Car and Foundry we will furnish the information requested in Harza Engineering Company's letter. . . .* (Ex. AE) (emphasis added) Two weeks later, Merritt-Chapman itself sent some Pacific drawings to Paceco, together with 23 pages of its own computations, solicited Paceco's comments, and told Paceco it would send more calculations "as soon as available." (Ex. AF)

Paceco dutifully sent MCS the comments it had solicited. (Ex. AG) Then MCS sent Paceco some more calculations, which "supersede[d]" those which had previously been sent, and solicited Paceco's comments again. (Ex. AH) MCS told Paceco that it "undertook" to provide the calculations as a "concession" to Paceco "in the interest of time saved."

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*Appellee relies upon the trial court's statement, in its Memorandum of Judgment, that "under California law a present breach of contract *plus a repudiation of the* contract results in a total breach of the contract . . . ." (Ans. Br. 21) (Emphasis added) But that "California law" requires a repudiation, and just puts appellee back where it started—there is no evidence to support a finding of repudiation. See, pp. 7-9, above; O.Br. 20-31. See also, Restatement, Contracts, §§ 317, 318; 1 Witkin, Summary, Contracts, § 264, p. 295.

(Ex. AI, p. 2)* The parties conducted themselves in accordance with that undertaking to the day Merritt-Chapman terminated Paceco's contract: MCS worked upon calculations, sent them to Paceco for checking, which Paceco did, and all along Paceco advised it would complete design of the hoists as soon as it had received final information from MCS. (O.Br. 8, 10-11)

MCS cannot claim that it terminated the contract because Paceco did not provide the calculations which MCS told Paceco it had undertaken to provide, and which MCS asked Paceco to work upon. That is true even if Paceco's failure to provide correct calculations were a total or material breach of contract, and even if the court had found it to be one, because one who does not treat a breach as total and, after the breach has occurred, asks or permits another to continue to work upon the contract, cannot terminate on account of the breach. See, *Boone v. Templeman,* 158 Cal. 290, 296-297 (1910); *American-Hawaiian Eng. Etc. Co. v. Butler,* 165 Cal. 497, 518-519 (1913); *Gateway Company, Inc. v. Charlotte Theatres, Inc.,* 297 F.2d 483, 484-485 (1st Cir. 1961); *Coughlin v. Blair,* 41 C.2d 587, 593-594, 598-599, 602 (1953) (sole case cited by appellee, O.Br. 21); Restate-

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*Appellee claims (Ans. Br. 7) that the court found that MCS "was forced to make the revised calculations . . . ," and cites Finding 23, which says nothing of the kind. Neither does any other finding. MCS "undertook" to do it as a "concession," as its own letter, which the text quotes, says.

The court did find that Paceco had the obligation under its contract to make the necessary calculations of required hoist capacities (Finding 15), and that nobody relieved it of that contractual responsibility. (Finding 19) Paceco does not dispute those findings on this appeal (O.Br. 6-7; pp. 2-3, above). Therefore conceivably Paceco's not performing all the work on the calculations was a partial breach giving rise to a claim (which MCS has never asserted) for MCS' costs for making the calculations itself. But that does not help MCS, which needs an excuse for terminating. (pp. 11-12, below)

ment of Contracts, §§ 309, 311; 1 Witkin, Summary, Contracts, § 297.*

III.

CONCLUSION

Appellant's Opening Brief sets forth the reasons why the trial court's judgment must be reversed. Appellee does not meet one of appellant's arguments. It does not challenge any of appellant's authorities. It disregards the findings on which the trial court decided this case. It bases its argument on findings which do not exist. Its brief is simply beside the point.

The trial court's judgment should be reversed.

Dated: July 18, 1968.

Respectfully submitted,

McCutchen, Doyle, Brown & Enersen
Norman B. Richards
David M. Heilbron

By Norman B. Richards

Attorneys for Appellant
Pacific Coast
Engineering Company

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*Under some circumstances a party can reinstate his right to terminate upon giving the other party "definite and specific notice" of his intention to do so if the breach is not cured within a "reasonable time." See, e.g., Restatement of Contracts, § 311; *Boone v. Templeman*, above, at 296-297; *Powell v. Cannon*, 119 C.A.2d 748, 752 (1953).

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

JAMES TOUTOULIS Petitioner vs UNITED STATES IMMIGRATION and NATURALIZATION SERVICE, Respondent.	)	No. 22231

PETITIONER'S BRIEF on JURISDICTION

FILED

JAN 18 1968

WM. B. LUCK, CLERK

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SUBJECT INDEX

TABLE OF STATUTES CITED

Immigration and nationality Act. of 1952.

Section 106 (a) as added by Act of 1952,& Act of September 26,1961 ; 75 Stat . 651 ; 8 U.S.C.§ 1105a.

Section 242(b) Stat.208 , 8 U.S.C.1252 (b).

Table of Cases Cited

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Attorney for Petitioner

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

JAMES TOUTOULIS, Petitioner, vs UNITED STATES IMMIGRATION and NATURALIZATION SERVICE, Respondent.	No. 22231 PETITIONER'S BRIEF AND POINTS AND AUTHORITIES ON JURISDICTION.

This court is granted jurisdiction by Section 106(a) of the Immigration and Nationality Act, 8 U.S.C. 1105 a to review the final order of deportation, outstanding against the petitioner, including jurisdiction to review the underlying order rescinding petitioner's permanent residence status.

1. The administrative record and transcript filed by the United States Immigration and Naturalization Service discloses that the petitioner herein entered the United States of America, Port of New York on June 10, 1961 as a non-immigrant visitor coupled with permission to remain here

until September 10, 1961; that on July 25, 1961 he married Yolanda Orozco Flynn, a United States citizen; that by virtue of Yolanda Orozco Flynn's visa petition, the petitioner's status was adjusted to a lawful, permanent resident alien; that on May 17, 1965 the Immigration and Naturalization Service instituted proceedings under Section 246 of the Immigration and Nationality Act whereby said petitioner's permanent status was sought to rescind his permanent resident status.

The said Department's Special Inquiry Officer on the 6th day of June, 1966 thereupon in pursuant to Section 245, after having conducted a partial hearing, held that your petitioner was illegally remaining in the United States on May 17, 1965 and entered an order June 6, 1966 rescinding petitioner's adjustment of status whereby your petitioner was ordered to leave the United States on or before April 20, 1967.

2. On April 20, 1967 your petitioner filed a Notice of Appeal which was duly served upon all the parties in the above entitled action on April 23, 1967 requesting a re-hearing of all the facts, which was done after your petitioner was granted an extension to extend the privilege of voluntary departure up to and including April 23rd, 1967.

3. On April 20, 1967 the United States Department of Justice Immigration and Naturalization entered the following order to wit:

"ORDER: IT IS ORDERED that in lieu of an order of deportation, the respondent be granted voluntary departure without expense to the Government within such time and under such conditions as the District Director shall direct. IT IS FURTHER ORDERED that if the respondent fails to depart when and as required, the privilege of voluntary departure shall be withdrawn without further notice or proceedings and the following order shall thereupon become immediately effective: Respondent shall be deported from the United States to Greece on the charge contained in the Order to Show Cause." (Later)

4. The said Board of Immigration of Appeals ruled as follows: That this matter may be stayed until such time as a decision may be had in the matter of the Wazari case under Identification No. A 12,269,334 for the reason that the issues in the Wazari case are identical and will lend itself to a single opinion as may be forthcoming through the United States Courts in the interpretation of Sections 241 (f) and 242 (b) and (4) of the Immigration Naturalization Act.

5. At this time I want to call attention to the Court that there is some distinction between this matter and the Wazari case insofar as Wazari's had to do with a student's visa and the case at bar is one where the petitioner married and therefore a permanent visa was to him granted and the said permanent visa did issue, only to be thereafter

rescinded upon information gathered by the Investigator for the Immigration Service. Nevertheless, your petitioner on February 27, 1964 married his present wife, a natural born citizen of the United States; but said later marriage was prior to the revocation of your petitioner's permanent residence status. It should also be noted herein that a daughter was born, issue of this later marriage, named Liberty Sophia Toutoulis presently approximately three and one-half years of age. (Reporter's Transcript dated April 20, 1967, page 26)

6. In reply to the Special Inquiry Officer for the Immigration Service directed to the petitioner herein:

"Q What was the grounds for divorcing - whatever her name was? Give her name. What was her name?

A Yolanda.

Q What was the grounds for divorcing Yolanda?

A Well she, of course, she put me out - she had abortion (unintelligible)

SPECIAL INQUIRY OFFICER: (TO RESPONDENT)

Q I'm sorry I can't understand what you said. Will you please speak distinctly and carefully. Now will you repeat your answer?

A Yes, Sir.

MR. HILL TO RESPONDENT: Q. She had an abortion, was that (interrupted)

A Had an abortion, that's why I left her.

Q Of your child?

A My child

Q Is that the grounds you say (interrupted)

A Yes, Sir, that's the reason that I left her - I never went back to her (interrupted)"

It may also be noted here that Mr. Toutoulis and his present wife reside in the City of Los Angeles and that they are very happy. Said child is a citizen of the United States for the reason that she was born in Los Angeles.

7. Your petitioner at all times herein mentioned sought to call Yolanda Orozco Flynn (his first wife) as a witness for cross-examination, but for diverse reasons no one seems to know where to locate her, not even her own mother, for the purpose of showing and proving the fact that when he did marry her he married her for the reason that he was in love with her, notwithstanding that the Government through its Investigator and by reason of the Hearing Officer's summation of the findings held that your petitioner married her only for the purpose of evading the Immigration Quota allotted to citizens of Greece. However, after examining Exhibit 15, which was introduced into evidence on October 6th, 1965 but dated November 13, 1961, which reads as follows:

"Dear Mama,

We've heard that you are in the hospital and we are very sorry. Please, Mama, try to rest and take everything easily so that you will be well and home soon. We worry

very much about you and always hope that you do not lack in anything.

Dear Mama, we are both very well, Jim and I, and I love Jim very much. I will try to be very good with him, I promise you. Please get well soon and write when you can.

Dear Mama, very soon Jim and I are going to have a baby. I love him & want to make him happy. I am very happy with him. Soon, Mama, we will send you some pictures. I hope you like them. Please don't worry, soon maybe I can very much. I hope you like me. Maybe you can read more in this letter than I am writing. I write only words but please read between the lines & maybe understand my thoughts. I love Jim, your son. I love you, his mother, and everything else he loves. Please think about us often and maybe send us your blessing because then our marriage will be perfect and our child will be blessed also.

Mama, I am sending you $5 dollars, it isn't very much but maybe you can buy some coffee with it.

Rest now and relax and eat well because you must get strong. Good bye for now.

Love,

Yolanda"

We must therefore conclude that Yolanda [illegible] did love your petitioner. The words speak for themselves "Dear Mama: Very soon Jim and I are going to have a baby. I love him.", the all of which contradicts the theory that

she was paid to marry James Toutoulis. Exhibit 19 is entirely in her own hand writing.

8. Your petitioner in order to live with himself and in good conscience was more or less forced to divorce Yolanda for the reason that she violated the laws of California and the Church laws of the Greek Church when she went to Tijuana whereat she had an abortion performed without first notifying your petitioner or ever obtaining his consent and naturally he would have at that time at least made an effort to stop her from having such an abortion. He was greatly concerned in having a child by her, since he undertook to support and rear Yolanda's children from a prior marriage. The foundation for the above mentioned letter admitting it into evidence was qualified on page 98 of the transcript dated October 6, 1965 as follows:

"THE SPECIAL INQUIRY OFFICER TO RESPONDENT:

Q Mr. Toutoulis, who is the Dear Mama that these letters are addressed to?

A My mother.

Q What is her name?

A Yannoula Toutoulis.

Q And, where was she living on October 31, 1961, and November 13th, 1961?

A In Sparta, Greece.

Q Is she still living there?

A Yes.

Q Has she ever been in the United States?
A Yes.
Q When?
A Two years ago.

9. The transcript discloses that there were many innuendoes setting forth that your petitioner and/or his brother paid certain sums of money for the purpose of having Yolanda consent to a marriage which was duly denied by your petitioner and his brother. However, monies that were paid from time to time to Yolanda were only for the purpose of paying ordinary expenses such as rent, food, medical bills and the likes, and not for a consideration to evading the Immigration restrictions.

As per the transcript dated October 6, 1965 the Special Inquiry Officer brought out the following testimony:

" Q Mrs. Orozco, I show you two photographs - I have shown them to Mr. Robertson - and ask you if you recognize the people in those photographs.
A Yes.
Q And, if so, do these two photographs appear to be the same people?
A Yes.
Q And do you recognize them?
A Yes.
Q And who are they?
A My daughter and James Toutoulis."

Quoting further from page 71 of said transcript, line 5:

"Q Mrs. Orozco, do you know the whereabouts of your daughter Yolanda at the present time?

A No, I don't."

Turning over to page 72 of said transcript, line 2:

Q Did you have any discussion with your daughter about any money that was to be paid as a result of the marriage between her and Jim?

A No."

The above has a tendency to prove that the Government for its final conclusion based its order upon hearsay evidence for it is not possible to cross-examine a statement written down by an Investigator and submitted as evidence. The former Mrs. Toutoulis was not present at the hearing conducted on or about October 6, 1965. If for no other reason the daughter, to wit, Liberty Sophia Toutoulis has a legal right to keep her father within the United States to protect her support and care as any citizen would so claim and it cannot be stated that her mother was not a citizen.

Respectfully submitted,

Paul Hill

Paul Hill, Attorney for Petitioner

<u>POINTS AND AUTHROTIES</u>

The jurisdictional statute under which petitioner seeks review by this Court of the deportation order and the underlying rescission order is Section 106(a) of the Immigration and Nationality Act, codified in 8 U.S.C. 1105a. Section 106(a) provides that the procedure prescribed by 28 U.S.C. ss 2341-2352 (formerly 5 U.S.C. ss 1031-1042) for judicial review by the Courts of Appeals of orders of certain federal agencies shall also "apply to, and shall be the sole and exclusive procedure for, the judicial review of all final orders of deportation heretofore or hereafter made against aliens within the United States pursuant to administrative proceedings under section 242(b) of this Act or comparable provisions of any prior Act . . .". Section 106(a) further provides that a petition for review of a final order of deportation pursuant to this procedure shall be determined by the Court of Appeals "solely upon the administrative record upon which the deportation order is based . . . .".

" Petitioner may not be deported until proceedings under 8 U.S.C. 1252(b(have been conducted. From an adverse ruling, petitioner may appeal to the Board of Immigration Appeals, and finally under Section 1105(a) (of Title 8, U.S.C., Section 106(a) of the Immigration and Nationality Act) the entire matter is subject to review in the Court of Appeals."

In the present case, petitioner did exhaust all possible administrative remedies by carrying the deportation proceeding through an appeal to the Board of Immigration Appeals before seeking judicial review of the rescission order. In the deportation proceeding itself, both before the Special Inquiry Officer and the Board, petitioner continued to challenge the validity of the underlying rescission order.

Alternatively, it is submitted that if the direct grant of exclusive jurisdiction in Section 106(a) does not include jurisdiction to review a rescission order constituting the basis for a final order of deportation, this Court nevertheless has jurisdiction to review such a rescission order pendent or ancillary to its Section 106(a) jurisdiction.

In Foti, the Supreme Court, having determined that the direct jurisdictional grant in Section 106(a) includes jurisdiction to review an order denying suspension of deportation, found it unnecessary to determine whether orders not encompassed by Section 106(a) are reviewable by the Courts of Appeals pendent or ancillary to a Section 106(a) review of a deportation order. See footnote 14, 375 U.S. 217, 227; 84 S. Ct. 306, 313.

It is petitioner's view that the judicial interpretation of Section 106(a) clearly establishes that this Court has jurisdiction to review the order rescinding petitioner's

permanent resident status either as part of the jurisdiction directly granted by Section 106(a) or pendent to such jurisdiction.

Dated: January 14, 1968.

Paul Hill

Paul Hill
Attorney for Petitioner

CERTIFICATION

I certify that in connection with the preparation of this brief,I have examined Rules 18 and 19 of the United States Court of Appeals for the ninth Circuit,and that, in my opinion the foregoing brief is in full compliance with these rules.

Paul Hill
Attorney for Petitioner

AFFIDAVIT OF SERVICE BY MAIL

State of California)
(SS
County of Los Angeles)

Paul Hill, being first duly sworn depose and says: that he is an active member of the State Bar of California - and not a party to the within action, that his address is 6331 Hollywood Boulevard, Los Angeles California, that he served the within Brief o. Jurisdiction and points of authority by mailing a copy thereof to the Office of the United States District Attorney- for the Central District of California ,Los Angeles California 90012; directed to the Ateention of Dzintra I. Janays, Ass't U.S.Attorney, 312 No. Spring Street Los Angeles California .

Paul Hill
Paul Hill, attorney for Petitioner

Subscribed and sworn to before me
the umdersigned - Notary Public
in and for the County of Los Angeles,
State of California

Sylvia R Bullock
Notary Public

SYLVIA R. BULLOCK
NOTARY PUBLIC - CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY

My Commission Expires March 16, 19

IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

WILLIAM BOMAR JONES, dba AVY AIRR FLIGHT SERVICE, Appellant,	
vs.	No. 22232
THE CITY OF WINSLOW, a municipal corporation; et al., Appellees.	

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF ARIZONA
HONORABLE WILLIAM P. COPPLE, Judge

APPELLEES' ANSWERING BRIEF

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CONSTITUTION

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SUPPLEMENTAL STATEMENT OF FACTS

The Appellant, William Bomar Jones, dba AVY Airr Flight Service, filed his action in the United States District Court for the District of Arizona against the City of Winslow, a municipal corporation; Henrie Lyet, individually and dba Desert Air Flight Service, and as manager of the Winslow Municipal Airport; Jacob Baker, Cody Eden, J. Lester Allen, Nick P. Juarez, Cecil McCormick, George Patterson, R. L. McNelly, individually and as members of the City Council of the City of Winslow; Dennis Sweeney, individually and as City Attorney for the City of Winslow; and The Justice Court of Winslow Precinct, County of Navajo, State of Arizona.

Appellant's action in the District Court

was filed in three counts and were as follows:

Count I alleged jurisdiction under the Commerce Clause of the Constitution of the United States, Article I, Section VIII, Clause III; Part II of the Interstate Commerce Act, 49 USC, Chapter 14; the 14th Amendment to the Constitution of the United States, Section I; and the Civil Rights Act, 42 USC, Chapter 21, (T.R. pg. 2). Also, that the controversy, exclusive of interest and costs, exceed the sum of $10,000.00. It was further alleged that Appellant was engaged in business as a commercial operator in flight operations and that on or about April 11, 1966, he had been given permission to use facilities consisting of office space at the Winslow Municipal Airport. That thereafter, on or about March 28, 1967, he was given notice to vacate this space and that thereafter, the defendant, City of

Winslow, caused to be served upon Appellant, a complaint of forcible detainer, filed in the Justice Court of Winslow Precinct, Winslow, Arizona. By reason of said act, Appellant alleged that he had advised the defendant, City of Winslow, that the action filed in the Justice Court was void as an attempt to regulate interstate commerce; that said act was in violation of 49 USC, Chapter 14, Federal Aid for Public Airport Development, Section 1110; that it deprived him of liberty and property without due process of law under the 14th Amendment to the Constitution of the United States and deprived him of equal rights under the law as given by the Civil Rights Act, 42 USC, Chapter 21. Count I contained only allegations and conclusions against two of the Appellees, City of Winslow, a municipal corporation and the Justice Court, Winslow

Precinct, Winslow, Arizona.

Count II, by reference, alleged all allegations of Count I and in addition thereto, alleged additional jurisdiction by reason of the Civil Rights Act of 1957, Title 28, Section 1343, U S C A, (T.R. pg. 5). Count II did not allege any violation of the Civil Rights Act of 1957 or any violation of the other jurisdictional statements contained in Count I. Plaintiff's second cause of action, in effect, concluded that the defendants had unlawfully and maliciously endeavored to destroy plaintiff's business by publication of false and malicious reports and accusations concerning the plaintiff.

Count III of plaintiff's complaint, by reference, reaffirmed the allegations contained in Counts I and II of his complaint. Plaintiff further alleged that the defendants

had conspired together in restraint of trade and used unfair competitive practices for the purpose of creating a monopoly in the aviation operations in and about the City of Winslow and for the purpose and intent of injuring the business of the plaintiff. It further alleged unfair competition practices by the City of Winslow and the defendant, Henrie Lyet.

The complaint set forth allegations asking for a Temporary Restraining Order against the defendants with specific reference to the action pending in the Justice Court of the Winslow Precinct. A Temporary Restraining Order was granted by the United States District Court and thereafter by stipulation of counsel, a Preliminary Injunction was issued by the Court pending determination of the action filed by plaintiff.

Thereafter, motions to dismiss were filed pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure for and upon the grounds that the complaint failed to state a claim upon which relief could be granted. The motion filed for and on behalf of the City of Winslow, together with the memorandum in support thereof, (T.R. pg. 24-29 incl.), attacked the plaintiff's complaint insofar as it applied to the allegations against the City of Winslow and insofar as the responsibilities of the City of Winslow existed under the allegations and the applicable federal statutes and Constitution provisions alleged in plaintiff's complaint.

A Motion to Dismiss for failure to state a claim upon which relief could be granted was filed on behalf of the defendants, Dennis Sweeney, individually and as City Attorney

for the City of Winslow and the Justice Court of Winslow Precinct, County of Navajo, State of Arizona, together with a supporting memorandum, (T.R. pg. 30-32 incl.). The same motion was filed on behalf of all other named defendants, together with a supporting memorandum, (T.R. pg. 33-36 incl.).

QUESTIONS PRESENTED

Appellant has designated three specifications of error (A.B., pg. 5, 6), which present two basic questions for this Court's consideration. They are as follows:

> Does the Court have the discretionary power to dismiss a verified, sworn and uncontradicted complaint, for failure to state a claim upon which relief may be granted?
>
> Does the District Court abuse its discretion in refusing to allow an amended complaint to be filed after having dismissed the

original complaint for failure to state a claim upon which relief may be granted?

ARGUMENT

In answer to the first, it is obvious that Rule 12(b)6 allows for dismissal of a complaint upon its failing to state a claim upon which relief may be granted. Such motion is the proper method of testing a complaint. Waldes Kohinoor, Inc. v. Stabile, SD NY 1956, 140 F. Supp. 917; United States v. United States Tin Corp., D. Alaska 1957, 148 F. Supp. 922; Reliable Mach. Works v. Unger, SD NY 1956, 144 F. Supp. 726.

Verification of the complaint, done in this case for the purpose of obtaining, without notice, a Temporary Restraining Order, does not make the complaint sacred and beyond attack under appropriate circumstances.

It is submitted that motions to dismiss should be granted where it clearly appears from the complaint that on the facts pleaded the plaintiff will not be entitled to any relief, and where additional detail could not buttress the complaint. Gilbertson v. City of Fairbanks, C. A. Alaska, 1959, 262 F.2d 734; Haldane v. Chagnon, C.A. Cal. 1965, 345 F.2d 601. The lower Court without question had the inherent right to dismiss plaintiff's complaint upon defendant's motions.

The only real question, is whether the Court may grant such motions directed to the plaintiff's complaint and deny plaintiff the permission to file an amended pleading. This is a discretionary matter resting with the trial court after a consideration of the facts and circumstances of the case, and such ruling will not generally be disturbed unless

the lower court has abused its discretion. Watson v. Employers Liability Assur. Corp., C.A. La. 1953, 202 F.2d 407; motion denied 75 S.Ct. 24, 348 U.S. 804, 99 L.Ed. 635, rev. on other grounds 75 S.Ct. 166, 348 U.S. 66, 99 L.Ed. 74, rehearing denied 75 S.Ct. 289, 348 U.S. 921, 99 L.Ed. 722; Hall v. National Supply Co., C.A. Tex. 1959, 270 F.2d 379.

While conceding that the court, in passing on a Motion to Dismiss, should take as true, in the light most favorable to plaintiff, all facts which are well pleaded, it is an equally familiar doctrine that only material facts and not the unsupported conclusions of the pleader are considered in that atmosphere. If it appears from those facts that plaintiff will not be entitled to any relief, then a Motion to Dismiss is proper and should be

granted. Foshee v. Daoust Const. Co., 7th Cir., 1950, 185 F.2d 23, Publicity Building Realty Corporation v. Hannegan, 8 Cir., 139 F.2d 583, 587; Dunn v. Gazzola, 1 Cir., 1954, 216 F.2d 709.

Plaintiff pleaded numerous federal laws and statutes, thereby concluding jurisdiction for his action. It is submitted that the only material facts pleaded in his complaint were the residence and capacities of the defendants; the notice to vacate his office given by the City of Winslow and the filing by the City of Winslow of an action of forcible detainer against plaintiff. All other items pleaded in plaintiff's complaint are mere conclusionary allegations and are unsupported by any material facts. The allegations against all defendants are commingled and it is difficult to differentiate the allegations against the

various defendants or between the actions sought to be stated.

In seeking to enjoin the Justice Court and the other defendants from proceeding with the forcible detainer action, Appellant alleged conclusions and failed to set forth any specific grounds for relief. Generally, in the absence of such allegations, injunctive relief will not be granted. Fleming v. Dierks Lumber and Coal Co., 39 F.Supp. 237; Bowles v. John F. Casey Co., D.C. Pa. 1946, 5 F.R.D. 143. All defendants against whom this relief was sought were either officials of the City government, the Justice Court or the City of Winslow itself. In such capacities, they are entrusted with discretionary powers and the exercise of such discretion is not to be generally controlled by injunctive relief. Adams v. Nagel, 303 U.S. 532, 58 S.Ct. 687,

82 L.Ed. 999.

The City of Winslow and its officials have an inherent right to control the property of the City. They may do so as if they were a private owner. Sections 2-301, 2-305 of the Arizona Revised Statutes, 1956, provide as follows:

> 2-301: "The governing body of a city or town or the board of supervisors of a county may acquire, establish, construct, own, control, lease, equip, improve, maintain, operate and regulate airports for the use of aircraft within or without the limits of the municipality, and for that purpose may use property suitable therefor which is or may hereafter be owned or controlled by the city, town or county."

> 2-305: "A city, town or county may accept and hold real property or any interest therein, by gift, trust or purchase or any other manner for the purpose of establishing, constructing, operating or maintaining airports or for uses incidental

> thereto, subject to such terms and agreements as the governing body may deem advisable."

Appellant's interest in the airport was pecuniary and self-serving. It is submitted that he has no inherent property right to insist on maintaining any of the facilities. The City should have the right to control its facilities even to the extent of an exclusive franchise, should it desire. Hertz v. Tucson Airport Auth., Ariz., 299 P.2d 1071; Bluebird Air Service, Inc. v. Chicago, 376 Ill. 272, 33 N.E.2d 456; Hillsborough County Av. Auth. v. National Airlines, Inc., 63 So.2d 61, 40 ALR 2d 1056; Harrison County Court v. West Virginia Air Service, 132 W. Va. 1, 54 S.E.2d 1.

It is further suggested, that with reference to the injunctive relief sought by plaintiff, that he had plain, speedy and

adequate remedies in the Court where the forcible detainer was pending. He could appear and defend and had his right of appeal in the event of an adverse judgment. The Arizona Revised Statutes provide as follows:

> Section 22-261:
>
> "A. Any party to a final judgment of a justice of the peace may appeal therefrom to the superior court where the judgment or the amount in controversy exceeds twenty dollars, exclusive of costs.
>
> "B. The party aggrieved by a judgment in any action in which the validity of a tax, impost, assessment, toll or a statute of the state is involved may appeal to the superior court without regard to the amount in controversy."

Appellant in his Second Count, concludes that defendants have sought to destroy his business. No material facts are alleged to support this conclusion. It must be assumed

from the pleading (T.R. 4-5, Para. IX) that Appellant concluded that the defendants had been guilty of libel or slander in some manner, although it is impossible to state the act of which he complains. The conclusions could not in any way be molded to state a claim under Art. 1, Sec. 8, Cl. 3 of the Constitution or 49 USC, Chapter 14, Federal Aid for Public Airport Development, Sec. 1110 or the 14th Amendment to the Constitution as alleged in Count I and by reference in Count II of plaintiff's complaint. (T.R., pg. 3-5).

It would be necessary for the court to draw unwarranted inferences of fact and conclusions of law in order to support plaintiff's claim. This should not be done so as to preclude dismissal. Ryan v. Coggin, 10th Cir. 1957, 245 F.2d 54. The general allegation of interference with interstate commerce or the

mere fact that commerce may be involved or affected is not sufficient to state a claim, or to perhaps give the court jurisdiction, where it does not concern the validity, construction or effect of some law regulating commerce. A sweeping, all inclusive allegation is without merit. Adams v. International Broth. of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers, C.A. Kan. 1959, 262 F.2d 835; Toledo, P. & W. R. R. v. Brotherhood of Railroad Trainmen, Enterprise Lodge No. 27, C.C.A. Ill., 1943, 132 F.2d 265, reversed on other grounds 64 S. Ct. 413, 321 U.S. 50, 88 L.Ed. 534; Delaware, L. & W. R. Co. v. Slocum, D.C. N.Y. 1944, 56 F.Supp. 634.

Plaintiff has also concluded that all defendants conspired against him in restraint of trade and by unfair competitive practices

for the purpose of creating a monopoly. It is impossible to tell from plaintiff's pleading what federal laws he claims were violated. Whether it be Sec. 1 of the Sherman Act, 15 U.S.C.A. or in the field of Civil Rights, 42 U.S.C.A. 1985(3), the allegations fall short of stating any justiciable issue. Without a statement of facts constituting the alleged conspiracy or its objects or accomplishment, the mere conclusion is not sufficient to constitute a cause of action. Nelson Radio & Supply Co. v. Motorola, 5th Cir., 1952, 200 F.2d 911; Black & Yates v. Mahogany Ass'n., 3rd Cir., 129 F.2d 227; Neumann v. Bastian-Blessing Co., D. C., 70 F.Supp. 447.

The same is true if the conclusion pleaded was meant to invoke provisions of Civil Rights legislation. Sec. 1985(3), 42

U.S.C.A., does not give a cause of action for conspiracy to deny federally guaranteed rights generally, including the right to due process of law. Dunn v. Gazzola, supra. It must be a deprivation of equality or of equal privileges and immunities. Joyce v. Ferrazzi, 1st Cir., 1963, 323 F.2d 931; Collins v. Hardyman, 1951, 341 U.S. 651, 71 S.Ct. 937, 95 L.Ed. 1253. The plaintiff must show an invidious discrimination and such purpose will not be presumed. Tarrance v. Florida, 188 U.S. 519, 23 S.Ct. 402, 47 L.Ed. 572. The conclusions of plaintiff totally failed to show a "clear and intentional discrimination". Gundling v. Chicago, 177 U.S. 183, 20 S.Ct. 633, 44 L.Ed. 725; Snowden v. Hughes, 321 U.S. 1, 64 S.Ct. 397, 88 L.Ed. 497; Powell v. Workmen's Compensation Bd. of State of New York, 2nd Cir.

1964, 327 F.2d 131; Roberts v. Barbosa, D.C. Cal. 1964, 227 F.Supp. 20.

Plaintiff alleged throughout his complaint violations of his civil rights by the defendants, both in their representative and individual capacities. While it is impossible to tell with any certainty the statute under which plaintiff makes his claim, it remains clear that he had not stated a sufficient claim.

The defendant, City of Winslow, is a municipality, which was acting within its sovereign capacity. The courts have consistently ruled that a municipality acting in such capacity is not liable under the statutes to an individual for damages. Monroe v. Pape, 365 U.S. 167, 81 S.Ct. 473, 5 L.Ed. 2d 492; Williford v. People of California, 9th Cir. 1965, 352 F.2d 474; Charlton v. City of Hialeah, 5th Cir. 1951, 188 F.2d 421;

Mayhue v. City of Plantation, Florida, 5th Cir. 1967, 375 F.2d 447; Tolefree v. Ritz, 9th Cir. 1967, 382 F.2d 566.

The Justice of Peace and Dennis Sweeney, the City Attorney, are, by reason of their judicial offices or capacities, in effect immune from liability under civil rights legislation. In Stift v. Lynch, 7th Cir. 1959, 267 F.2d 237, at pg. 239, Duffy, Chief Judge, stated:

> "It has long been recognized that judges of courts of record and of general jurisdiction are immune from civil liability for acts done by them in the exercise of their judicial functions." Alzua v. Johnson, 231 U.S. 106, 34 S. Ct. 27, 58 L.Ed. 142; Tate v. Arnold, 8th Cir., 223 F.2d 782; Francis v.Crafts, 1st Cir., 203 F.2d 809.

State and prosecuting attorneys have also been extended this same immunity. Stift v. Lynch, supra.; Jennings v. Nester, 217

F.2d 153; Eaton v. Bibb, 217 F.2d 446; Cawley v. Warren, 216 F.2d 74.

The remaining defendants are all members of the City Council of Winslow, or public officers. Their official actions in the discharge of their duties are not generally held to be actionable in the area of Civil Rights. This Court, in Hoffman v. Halden, 9th Cir. 1959, 268 F.2d 280, following O'Campo v. Hardisty, 9th Cir. 1958, 262 F.2d 621, and Cooper v. O'Connor, 1938, 69 App. D.C. 100, 99 F.2d 135, 118 ALR 1440, held that an act of a state or governmental officer was not generally actionable, if discretionary, and pursuant to their lawful authority. See also Tenney v. Brandhove, 341 U.S. 367, 71 S.Ct. 783, 95 L.Ed. 1019. The same rule has been applied to city governments and councilmen. Nelson v. Knox, 6th Cir.,

1958, 256 F.2d 312.

The allegations against defendants as individuals were not sufficient, in that an action under any of the civil rights statutes with which we would be concerned, must allege the acts were done under the "color of state law". Hoffman v. Halden, supra. While the right to maintain a suit under the Civil Rights Act, without diversity of citizenship is conceded, the statutes are directed only to state action and the invasion by individuals of the rights of other individuals is not within their purview. Williams v. Yellow Cab Co. of Pittsburg, 3rd Cir. 1952, 200 F.2d 302; certiorari denied, Dorgan v. Yellow Cab Co., 346 U.S. 840, 74 S.Ct. 52, 98 L.Ed. 361.

The lower court's dismissal of plaintiff's complaint is sustained by the reasoning of the foregoing authorities. Under the

applicable cases and statutes, plaintiff failed to state a claim against any of the defendants.

The sole question is whether the court abused its discretion in refusing plaintiff leave to file an amended complaint. The lower court heard oral argument and considered the possible effect of amended pleadings. The lower court stated that:

> "THE COURT: Well, Mr. Hohn, I have read the file, I have read the pleadings, and as I advised you when you first brought it in, I had some serious doubts about it.
>
> "I don't think that you have stated in any of your counts a claim for which relief can be granted in the federal court. I think that your remedy, if any, is in the state court under the state laws.
>
> "It's the order of the court that the motion for dismissal as to all defendants will be granted, and the injunction, which was heretofore issued by stipulation of the parties, will be quashed.

> "MR. HOHN: Could I ask leave to amend before this dismissal in light of the fact that this will extinguish the whole thing --
>
> "THE COURT: Mr. Hohn, I can't see any basis from my understanding of the facts of this case on which you could amend so as to state a complaint in this court.
>
> "So in order to bring the matter to a head, the dismissal is without leave to amend the complaint." (R.T. pg. 13, line 25, and pg. 14, lines 1-18).

Appellees are well aware of this Court's rulings that under the Federal Rules, amendments should be liberally allowed. Sidebotham v. Robinson, C.A. Calif. 1954, 216 F.2d 816. Gilbertson v. City of Fairbanks, supra.; Bonanno v. Thomas, 9th Cir. 1962, 309 F.2d 320; United States v. Howell, 9th Cir. 1963, 318 F.2d 162; Breier v. Northern California Bowling Proprietor's Ass'n., 9th Cir. 1963, 316 F.2d 787.

Inherent in each of these decisions, however, is the proposition that if no amount of additional fact or detail could so improve the pleading so as to state a claim upon which relief could be granted upon the theories of law advanced by Appellant on Appeal, then there is not an abuse of discretion by the trial court. Gilbertson v. City of Fairbanks, supra.

Dismissal of a complaint is proper where:

> "... it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." Conley v. Gibson, 1957, 355 U.S. 41, 45-46, 78 S.Ct. 99, 101-102, 2 L.Ed. 2d 80; Haldane v. Chagnon, supra.

Appellant did not indicate in any manner or in any particular how his complaint should or could be amended to bring it within the

applicable principles of law which are controlling. <u>Gilbertson v. City of Fairbanks</u>, supra.

While the trial court's judgment does not set forth the reasons for denying plaintiff the right to amend, <u>Bonanno v. Thomas</u>, supra., such reasons are disclosed by the Court's comments contained in the record now before this Court. (R.T. pg. 9-14). Obviously, the trial court did not act in an arbitrary manner, but exercised the discretion inherent to his position.

While a trial judge should exercise with caution the granting of a Motion to Dismiss, "on occasion motions to dismiss supply a useful technique for the prompt disposition of suits, ..." <u>Gruen Watch Co. v. Artists Alliance</u>, 9th Cir., 191 F.2d 700, 705.

While a motion may not take the place

of submission of evidence or findings by the court,

> "... It is obvious that there are cases which justify and indeed compel the granting of such motion. The line between the totally unmeritorious claims and the others cannot be drawn by scientific instruments but must be carved out case by case by the sound judgment of trial judges. ..." Rennie & Laughlin, Inc. v. Chrysler Corporation, 9th Cir. 1957, 242 F.2d 208, 213.

CONCLUSION

The absence of law or fact to support the claims advanced by Appellant in his complaint, together with the trial judge's exercise of sound judgment within his discretion supports this Court's affirmance of the lower court's judgment.

Respectfully submitted this 8th day of

March, 1968.

DANIEL J. STOOPS, of
Mangum, Wall and Stoops
Attorneys for Appellees

CERTIFICATE

I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with those Rules, and I further certify, in compliance with Rule 18, that I have caused to be served upon the attorney for Appellant, three copies of the foregoing Brief.

Daniel J. Stoops

Daniel J. Stoops

[illegible]

[illegible]

[illegible]

[illegible]

No. 22233

United States
COURT OF APPEALS
for the Ninth Circuit

STATE OF OREGON, by and through its State Highway Commission, composed of Glenn L. Jackson, Kenneth N. Fridley and David B. Simpson,

Appellant,

v.

Tug GO GETTER, et al including OLSON TOWBOAT CO., a California corporation,

Appellee.

Appeal from the United States District Court for the District of Oregon

HONORABLE GUS J. SOLOMON, District Judge

BRIEF OF APPELLANT, STATE OF OREGON

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Appeal from the United States District Court for the District of Oregon

HONORABLE GUS J. SOLOMON, District Judge

BRIEF OF APPELLANT, STATE OF OREGON

This is an appeal by plaintiff from an order of the District Court granting the motion of defendant, Olson Towboat Co. (hereafter, "Olson Towboat") to dissolve the Writ of Foreign Attachment placed upon defendant's tug VIRGINIA PHILLIPS as soon as she came into Oregon waters at Bandon, Oregon, on

October 14, 1966. The finality and severability of the order from the context of the collision litigation is such that it is appealable to this Court under 28 USC Section 1991; *Swift & Company Packers* v. *Compagnia Del Caribe*, (1950) 339 U.S. 684; *Cohen* v. *Beneficial Industrial Loan Corp.*, (1949) 337 U.S. 541. The District Court had admiralty jurisdiction, 28 USC Section 1333.

STATEMENT OF THE CASE

On October 13, 1966, the State of Oregon, acting by its State Highway Commission filed a libel in the District Court against Tug GO GETTER *in rem* and against several defendants *in personam*, including Oliver J. Olson & Co. and Olson Towboat (Tr. 1). As to the two mentioned defendants, the plaintiff alleged:

1. Oliver J. Olson & Co. was a California corporation with its principal place of business in San Mateo, California, and that it owned and operated barge J. WHITNEY.

2. Olson Towboat was a California corporation with its principal place of business in either San Francisco or San Mateo, California; that it owned and operated the ocean-going Tug JEAN NELSON, whose master Charles May was employed by Olson Towboat.

3. That at all relevant times defendant Olson Towboat was the *alter ego* of defendant Oliver J. Olson & Co.

4. That on October 4, 1966, defendant Oliver J. Olson & Co., through its *alter ego* and agent Olson Towboat brought the barge J. WHITNEY in tow of the JEAN NELSON into Bandon, Oregon. That Oliver J. Olson & Co. hired from Sause Bros. Ocean Towing Co. the Tug GO GETTER to tow the barge J. WHITNEY up the Coquille River and through plaintiff's bridge. That under direction of Oliver J. Olson & Co. Charles May, the master of the JEAN NELSON while in the employ of Olson Towboat, secured the barge to the Tug GO GETTER, placed a part of the crew of the JEAN NELSON aboard the barge J. WHITNEY and then himself on board the Tug GO GETTER which took the barge J. WHITNEY in tow to collide with plaintiff's bridge. That the overall command of the navigation of the flotilla, consisting of barge J. WHITNEY and Tug GO GETTER, was in the master of the JEAN NELSON if the overall command was not a joint command of Charles May and John G. Davis, master of Tug GO GETTER in the employ of Sause Bros. Ocean Towing Co.

5. After alleging various faults on part of Tug GO GETTER and all named defendants, plaintiff prayed, among other things, that in case defendants Oliver J. Olson & Co. and/or defendant Olson Towboat could not be found within the district, that all goods and chattels belonging to either or both of them, and in particular barge J. WHITNEY and a certain tug JEAN NELSON, now lying in the Coquille River, Oregon, may be attached by process of foreign attachment in the amount of $240,000.00, the sum sued for in the libel.

Upon affidavit of J. Robert Patterson, that defendants Oliver J. Olson & Co. and/or Olson Towboat could not be found within the district plaintiff had issued by the Clerk of the District Court Summons and Writ of Attachment (Tr. 12).

Upon instructions from plaintiff the U. S. Marshal served Olson Towboat by serving Summons and Writ of Foreign Attachment upon the Tug VIRGINIA PHILLIPS upon her entry into the Coquille River on October 14, 1966. Thereafter, on the same date Oliver J. Olson & Co. was summoned by personally serving its representative, Thomas Miller in Coos Bay, Oregon. Because Thomas Miller did not deny authority to receive process no property of Oliver J. Olson & Co. was attached (Tr. 12).

On April 17, 1966, defendant Olson Towboat entered its "restricted appearance" and moved the Court for an order dissolving the process of attachment and releasing Tug VIRGINIA PHILLIPS and the security substituted therefore from the process (Tr. 26). The motion was made upon the ground that Olson Towboat was doing business in Oregon and that it maintained an agent therein so that it could be found in Oregon. The motion also claimed that because plaintiff's libel alleged that Olson Towboat was the *alter* ego of Oliver J. Olson & Co. that plaintiff for that reason knew or should have known, that Olson Towboat was doing business in Oregon and was subject to process. The motion was based upon the affidavit of Oliver J. Olson, III and Thomas E. Miller.

In brief, Oliver J. Olson, III in his affidavit (Tr. 26) stated that he was a resident of Portland, Oregon, for about one and one-half years; that he was the representative and agent of Oliver J. Olson & Co., a California corporation engaged in the business of shipping lumber from Oregon and Washington ports to California and Hawaii ports; that Oliver J. Olson & Co. had offices in Portland and Coos Bay, Oregon; that it had two employees in its Portland office and one Thomas E. Miller employed in its Coos Bay office; that it had its name on its office doors and in the telephone directories in both Portland and Coos Bay, Oregon.

As to Olson Towboat the affidavit stated:

> "8) That OLSON TOWBOAT CO. is a separate corporation from OLIVER J. OLSON & CO. I am not employed by it; that I was once an officer therein and generally I am familiar with the details of its operation.
>
> "9) That OLSON TOWBOAT CO. is engaged in the business of operating tugboats, principally ocean-going tugs, and its principal customer is OLIVER J. OLSON & CO., but it has and will tow for other firms, persons or corporations, and OLIVER J. OLSON & CO. hires other tugs from other companies than OLSON TOWBOAT CO. whenever necessary; and that OLSON TOWBOAT CO. employs said THOMAS MILLER as its managing agent in the State of Oregon and maintains its Oregon office in Coos Bay in the OLIVER J. OLSON & CO. office and is doing business in Coos County, State of Oregon and has for more than five years, and maintains an

account with the State Compensation Department of the State of Oregon (see Exhibit 'A' attached) and files Information Returns with the Tax Commission of the State of Oregon (see Exhibit 'B' attached).

"10) That I know that the said THOMAS MILLER is the managing agent for, and receives part of his salary from OLSON TOWBOAT CO., and I know generally that his duties are transacting whatever shoreside business is necessary in the Coos Bay area for the business of OLSON TOWBOAT CO., such as ordering fuel, repairs, replacements for its tugs and crews, taking applications for employment, dispatching its tugs, and any other necessary business.

"11) That I also know that said THOMAS MILLER resides in North Bend, Oregon, just outside of Coos Bay and he is well known as the managing agent for OLSON TOWBOAT CO., and has resided in this area for more than fifteen years; and I believe OLSON TOWBOAT CO. is well-known in the Coos Bay, Newport, Bandon and Astoria, Oregon, areas."

The Exhibit A referred to in the Olson affidavit (Tr. 26) is a letter dated March 20, 1967, to Olson Towboat's Portland, Oregon, attorney reporting that Olson Towboat had secured coverage with the State Industrial Accident Commission on May 22, 1961, and had only one salesman working in Oregon. Exhibit B is letter dated March 31, 1967, to the same attorney from Oregon State Tax Commission reporting that Olson Towboat is not registered in the files

of the Withholding Department of the Tax Commission, but that it is filing information returns with the Audit Department.

The affidavit of Thomas E. Miller (Tr. 26) stated in brief that he was employed by both Oliver J. Olson & Co. and Olson Towboat with office in Coos Bay; that he was the local representative for Oliver J. Olson & Co. and in addition, the managing agent for Olson Towboat, handling all of the shoreside business in the State of Oregon for Olson Towboat "as the case may arise." He then stated:

> "That the process in the within action was served on me on October 14, 1966, at about 5:15 p.m. as the agent of Oliver J. Olson & Co. Prior to that and about 2:45 p.m. service was made on Olson Towboat Co. by attaching the tug VIRGINIA PHILLIPS by leaving copies of the process with the Captain of the VIRGINIA PHILLIPS, a tug which is owned by Olson Towboat Co. That prior to the service on the Captain of the tug and its seizure, no inquiry was made of me as to whether or not I was the Managing Agent of Olson Towboat Co. I have been served before on behalf of Oliver J. Olson & Co. on a number of occasions."
>
> "That inasmuch as I handle all of the business for the towboat company in the Coos Bay area as well as in Bandon and in Newport and occasionally in Astoria, I believe that if anyone had inquired on the waterfront, particularly among any of the ship supply houses, oil docks, or other tugboat companies, he would have been advised that I am the Managing Agent for Olson Towboat Co. in this state."

In opposition to the motion to dissolve the Writ of Foreign Attachment the plaintiff filed on May 9, 1967, the affidavit of George E. Rohde, Chief Counsel for the State Highway Commission which stated as follows (Tr. 37):

> "I am Chief Counsel for the Oregon State Highway Commission. Shortly after the Bullard Bridge at Bandon, Oregon, was struck and damaged on October 4, 1966, by barge J. WHITNEY being towed up the Coquille River by Tug GO-GETTER the State Highway Department undertook to investigate the collision.
>
> "First reports were that Oliver J. Olson & Co. owned the barge J. WHITNEY and that Sause Bros. Ocean Towing Co. owned the Tug GO-GETTER. In our investigation I learned that the master of the Tug JEAN NELSON was aboard the Tug GO-GETTER possibly operating her at the time of the collision."
>
> "On October 10, 1966, I wrote and mailed the demand letter as set forth in Exhibit A to this affidavit addressed to both Oliver J. Olson & Co. at Coos Bay, Oregon, and Sause Bros. Ocean Towing Co. also at Coos Bay, Oregon."
>
> "Shortly after mailing of the letter of October 10, 1966, I received a telephone call from Attorney Samuel L. Holmes of San Francisco, California, who told me he represented Oliver J. Olson & Co. In the course of the conversation I mentioned the report that I had received to the effect that the master of the JEAN NELSON was aboard the Tug GO-GETTER. Mr. Holmes explained to me that the master of the JEAN

NELSON was employed by the Olson Towboat Company which operated the JEAN NELSON in towing the barge J. WHITNEY on the coast and that Olson Towboat Co. was a separate and distinct company from Oliver J. Olson & Co. Mr. Holmes also mentioned that Oliver J. Olson & Co. owned the barge J. WHITNEY."

"On the afternoon of October 11, 1966, I and Mr. J. Robert Patterson of our office consulted William F. White of the Firm of White, Sutherland & Gilbertson at Portland, Oregon, in regard to action to be taken. The present action was filed in the late afternoon of October 13, 1966, and the Tug VIRGINIA PHILLIPS arrested in the late evening of October 14, 1966."

"The first knowledge I had of Olson Towboat Co. being involved was in my telephone conversation with Mr. Holmes before we had consulted Mr. White."

"I checked the office of the Commissioner of Corporation to determine if either Oliver J. Olson & Co. or Olson Towboat Co. had qualified to do business in Oregon or had appointed an agent in the State of Oregon to receive process. I found that neither corporation was qualified to do business or had appointed an agent in this state to receive process. I knew Oliver J. Olson & Co. had an office in Coos Bay, Oregon, and that Mr. Tom Miller represented that company. A check in the telephone directories of Portland and Coos Bay showed Oliver J. Olson & Co. as being listed but not Olson Towboat Co. I was unable to find either an office or agent of Olson Towboat Co. in the State of Oregon."

"In the course of preparing the action which was filed October 13, 1966, it was learned from the U. S. Collector of Customs in San Francisco that the barge J. WHITNEY was not owned by Oliver J. Olson & Co. as Mr. Holmes had represented but rather by 12 or 13 individuals whose names appeared to be members of the Olson family."

"On October 13, 1966, at the time of filing the herein action, I had no knowledge of Olson Towboat Co. doing business in Oregon or having any agent qualified to receive process in Oregon. My search and search of others did not find Olson Towboat Co. in the State of Oregon. I firmly believed it was a California corporation operating tugs on the Pacific Coast and coming fleetingly, if at all, into Oregon ports.' '

"Upon the recommendation and advice of William F. White, whom the plaintiff employed as an attorney experienced in admiralty matters, the United States Marshal was instructed to arrest the JEAN NELSON and/or VIRGINIA PHILLIPS upon either or both of their arrivals in an Oregon port, and then serve Oliver J. Olson & Co., the other defendant, by personally serving Tom Miller. Plaintiff did not know the extent of authority of Tom Miller as to receiving process for Oliver J. Olson & Co. and as a consequence the Marshal was instructed that if he denied authority to receive process to then attach whatever property that could be found of Oliver J. Olson & Co. which was thought possibly to be lumber dockside. It developed that the JEAN NELSON did not come into an Oregon port on the night of October 13, 1966, but only

the VIRGINIA PHILLIPS. I was fearful that if Oliver J. Olson & Co. were served first that it would report the action to Olson Towboat Co. which would keep its tugs out of Oregon waters and not appear in the action."

"On October 13, 1966, the approximate damage to the Bullard Bridge appeared to be $240,000.00. So far as I knew Olson Towboat Co. could not be reached in the State of Oregon except through the arrest of its vessels in Oregon, and having learned through Mr. Holmes that Olson Towboat Co. was a separate entity and operation from Oliver J. Olson & Co. I regarded it prudent to reach its vessel in Oregon waters to secure unequivocal jurisdiction over Olson Towboat Co. while it was possible to do so."

Defendant Olson Towboat thereafter filed on May 15, 1967, a counter-affidavit of San Francisco Attorney, Samuel L. Holmes (Tr. 42). In brief, Mr. Holmes stated that when Oliver J. Olson & Co. received plaintiff's demand letter (Exhibit A to Rohde Affidavit) he telephoned Mr. Rohde and, among other things, explained that Oliver J. Olson & Co. and Olson Towboat were separate and distinct corporations; that Captain May was the master of the JEAN NELSON and that while he had heard that Captain May was aboard the tug GO GETTER he was not there as either an employee of Oliver J. Olson & Co. or Olson Towboat. He did not state that he told Mr. Rohde that the man who acted as agent for Oliver J. Olson & Co. in Coos Bay was also agent for Olson Towboat, but did state that had Mr. Rohde

made known the fact that he wished to have process served on Olson Towboat he would have told him that process could have been served upon the same man for both companies. Attached to the affidavit is Mr. Holmes' letter of October 12, 1966, to Mr. Rohde explaining that Oliver J. Olson & Co. and Olson Towboat were separate corporations and why neither corporation was involved in or liable for the collision with plaintiff's bridge.

Following the hearing based on the foregoing pleadings and affidavits the District Court on June 27, 1967, granted the motion of Olson Towboat and ordered process against tug VIRGINIA PHILLIPS dissolved (Tr. 50). This appeal is from that order.

SPECIFICATION OF ERROR

This appeal is from the order of the District Court granting a motion of Olson Towboat to dissolve the writ of foreign attachment. Because the District Court neither rendered an opinion nor made findings of fact Appellant was required to designate as points on appeal that the District Court both abused its discretion and erred in law (Tr. 55).

The posture of this case on appeal is like that in *Horizons Titanium Corporation* v. *Norton Company* (1 Cir., 1961) 290 F.2d 421, 424 which involved an appeal from an order denying motion to quash a subpoenas duces tecum. Here, as there, this Court for lack of findings cannot tell whether it is reviewing

an exercise of discretion or a ruling of law. However, here, as there, we believe this Court can find nothing in the record to support the order. With basic facts undisputed the error of the District Court will appear to be one of law in misconceiving or misapplying the "not found" rule which is essential to determining a motion to dissolve a writ of foreign attachment.

SUMMARY OF ARGUMENT

In ordering the writ dissolved the District Court misconceived or misapplied the standard of the "not found" rule to undisputed facts. The affidavit record fails to support a finding required by the rule that Olson Towboat was in the jurisdictional sense present in Oregon and that plaintiff had not used due diligence in its endeavor to find Olson Towboat in Oregon and to discover that Tom Miller, who was held out as an Oliver J. Olson & Co. agent was also an Olson Towboat agent.

When, as here, a California corporation did not qualify to do business in Oregon or appoint an agent to receive process it should not be permitted, for purpose of dissolving a writ of foreign attachment, to establish its corporate presence by anything less than proof of a substantial and systematic course of actual business activity. Such proof, if existing, is so obviously within its ability to produce that it should not suffice for Olson Towboat merely to prove it had a sole agent in Oregon who transacted "whatever shore-

side business is necessary." This should be particularly true of Olson Towboat which is in the business of operating ocean-going tugs on the Pacific Coast and fails to even mention how many tugs it operates or how frequently, if at all, they enter Oregon waters.

For a collision case such as this plaintiffs fulfilled their due diligence obligation when they looked and could not find Olson Towboat having appointed an agent to receive process and could not find it listed in any telephone directory unlike Oliver J. Olson & Co., a separate but commonly owned corporation. What is unusual in this case is that prior to the levying of the writ a San Francisco attorney representing Oliver J. Olson & Co. telephoned and wrote plaintiff from San Francisco to state that Olson Towboat was a separate and distinct company from Oliver J. Olson & Co. without disclosing that a Tom Miller represented both companies (Tr. 37, 42). Such conduct would make it clearly erroneous for any court to find plaintiffs to be lacking in due diligence in not discovering that Tom Miller, known as an Oliver J. Olson & Co. agent was also an Olson Towboat agent.

Unless reversed, the order of the District Court will have far-reaching consequences in nullifying and rendering too precarious for use the ancient writ of foreign attachment which has long been regarded as a necessary adjunct to the admiralty practice.

ARGUMENT

The writ of foreign attachment

Admiralty has long used the writ of foreign attachment of a person's goods in order to compel personal appearance, *Puget Sound Tug & Barge Co.* v. *The GO GETTER*, (Ore. 1952) 106 F. Supp. 492. The process is of ancient origin, *Atkins* v. *The Disintergrating Co.*, (1872) 85 U.S. (14 Wall.) 272 and is not dependent upon state law, *Bjolstad* v. *Pac. Coast S. S. Co.*, (N.D. Calif., 1914) 221 F. 692. Authority for the use of the writ stems from Admiralty Rule 2, (28 USCA, Adm. R. 2). Although Rule B(1) of the Federal Rules of Civil Procedure (28 USCA R. B(1) has supplanted Admiralty Rule 2 nothing has been changed so far as this case is concerned.

The writ of foreign attachment has as its dual purpose: (1) to obtain jurisdiction of the defendant *in personam* through his property, and (2) to assure satisfaction of any decree in plaintiff's favor, *Swift & Company Packers* v. *Compania Del Carib*, (1950) 339 U.S. 684. While neither purpose can be separated from the other both are of equal importance. In fact, courts on occasion have emphasized the importance of the writ's security purpose, *Swift & Company Packers* v. *Compania Del Carib*, (1950), supra; *Asiatic Petroleum Corp.* v. *Italia Societa Anonema Di Navigazione*, (3 Cir., 1941) 119 F.2d 610. Because these dual purposes cannot be separated it has been held that personal appearance prior to the

levying of a writ will defeat it, *Melmay* (*Attachment*) (Canal Zone, 1932) 1933 A.M.C. 1057, while an appearance immediately afterwards will not. *Swift & Company Packers* v. *Compania Del Carib*, supra.

The Writ's "not found" Rule

Let us first define what we will term the "not found" rule. A lucid expression of the rule was given by District Judge Weinfeld in *United States* v. *Cia. Naviera Continental S. A.*, (S.D. N.Y., 1959) 178 F. Supp. 561. After pointing out that Admiralty Rule 2 permits utilization of the writ only when a respondent is not found within the jurisdiction Judge Weinfield at page 563 stated:

> "The Rule does not define 'found.' The term has a different significance depending upon whether the respondent is a resident or nonresident. In the case of a foreign respondent, such as we deal with here, whether or not it can be found within the district presents a two-pronged inquiry: first, whether it can be found within the district in terms of jurisdiction, and second, if so, whether it can be found for service of process.
>
> "The first inquiry is directed to whether or not the respondent is present within the district by reason of activities on its behalf by authorized agents so as to subject it to this Court's jurisdiction in in personam proceedings.[5] If not, then

"[5] See International Shoe Co. v. State of Washington, 1945, 326 U.S. 310, 66 S. Ct. 154, 90 L. Ed. 95; Szabo v. Smed-

the respondent cannot be found within the district and this ground alone would be sufficient to support the attachment.[6]

"On the other hand, even if the foreign respondent be found within the district in a jurisdictional sense, its property is not immunized from attachment. The second question, (the only one arising in the instance of a resident respondent), then presents itself. Could the respondent be found within the district with due diligence for service in the libel proceeding? . . ."

Olson Towboat failed to show any substantial systematic business activity sufficient to finding that it could be "found" in Oregon.

As we have seen, the first of the two-pronged factual inquiry on the part of the District Court was whether or not Olson Towboat showed that it had done business in a substantial and systematic manner sufficient to be jurisdictionally found in Oregon. *International Shoe Co.* v. *Washington*, (1945) 326 U.S. 310, 316. This it failed to do.

If the Olson and Miller affidavits are stripped of their self-serving conclusions and their "hearsay"

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vig Tankrederi, A. S., D.C.S.D.N.Y., 1951, 95 E. Supp. 519; Federazione Italiana Dei Consorzi Agrari v. Mandask Compania D.V., D.C.S.D.N.Y. 1957, 158 F. Supp. 107."

"[6] It is for this reason that we find reported cases in which respondents in attachment proceedings argue in reverse of the contention usually made when resisting jurisdiction. See comment by Judge Bryan in Federazione Italiana Dei Consorzi Agrari v. Mandask Compania D.V., D.C.S.D.-N.Y., 1957, 158 F. Supp. 107, 111."

conjecture* all they prove is that Olson Towboat shared the services of the Oliver J. Olson & Co. representative at Coos Bay to transact for Olson Towboat "whatever shoreside business is necessary."

It seems to us that when a California corporation neither qualifies to do business in Oregon nor appoints an agent to receive process it should be required to do more than leave to conjecture the substantiality and consistency of the business actually conducted by its single agent, who turns out to be also employed by another company. This is particularly true of Olson Towboat which operates ocean-going tugs on the Pacific Coast and professes to be separate and distinct from its commonly owned corporate customer having a similar name.

Conspicuously absent from the Olson Towboat proof is the number of tugs it operates and the frequency, if at all, they come into Oregon waters. All that appears of record is that its tug JEAN NELSON was long enough in Bandon on October 4 for her master to navigate the tug of a stranger up the

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* For example in the Olson affidavit it is stated: "he (Thomas Miller) is well known as the managing agent for OLSON TOWBOAT CO. . . . and I believe OLSON TOWBOAT CO. is well known in the Coos Bay, Newport, Bandon and Astoria, Oregon areas" while in the Miller affidavit it is stated: ". . . I believe that if anyone had inquired on the waterfront, particularly among any of the ship supply houses, oil docks, or other tugboat companies, he would have been advised that I am the Managing Agent for Olson Towboat Co. in this state." In the Holmes' affidavit it is stated: "Had Mr. Rohde made known the fact that he wished to have process served upon Olson Towboat Co., he would have been advised that process could be served on the same man for both companies."

Coquille River to collide with plaintiff's bridge and that its tug VIRGINIA PHILLIPS arrived on October 14, 1966, to be attached. Nor is there any word in the record about Olson Towboat soliciting any business, maintaining any bank accounts, paying any taxes or in fact doing any business at all in Oregon.

Ordinarily a corporation doing business in a state holds a person out in some manner as its agent for the transaction of business. Not so here. Olson Towboat was content to let Tom Miller be held out as the representative of Oliver J. Olson & Co. without doing a single thing to cause anyone to identify him as an Olson Towboat agent. While professing that Olson Towboat was separate and distinct from Oliver J. Olson & Co. it was content to let Tom Miller work out of an office bearing the name of Oliver J. Olson & Co. and having its name listed in the telephone directory without any mention whatsoever of Olson Towboat. A corporation which permits the identity of its only agent to become so camouflaged cannot in fairness come into court and claim a corporate presence short of showing exactly the substance and continuity of business transacted by such agent. The record cannot support a finding that the business of Olson Towboat in Oregon was so significant that it could have been found in the jurisdictional sense. See: *American Potato Corp.* v. *Boca Grande S. S. Co.* (E.D. Pa., 1916) 233 F. 543 and *Seawind Compania S. A.* v. *Crescent Line* (2 Cir., 1963) 320 F.2d 580.

A finding that plaintiff lacked due diligence in not dicovering that the Oliver J. Olson & Co. agent was also an Olson Towboat agent would be clearly erroneous.

It was clearly erroneous for the District Court to have dissolved the writ where to do so it was required to at least find that plaintiff had not used due diligence to discover that the Oliver J. Olson & Co. agent was also an Olson Towboat agent qualified to receive process.

On this second of the two-pronged inquiry the undisputed facts should be viewed from the position of plaintiff and what it knew, or did not know, or could be reasonably charged with finding out. George E. Rohde, Chief Counsel for the Oregon State Highway Commission had to decide for plaintiff whether or not to attach the VIRGINIA PHILLIPS upon her entry into Oregon waters. We have set forth in the Statement of the Case his affidavit giving his reasons for the writ and we will not repeat it here.

First, however, is the question of whether the criteria for measuring the plaintiff's conduct is one of "due diligence" or one of "bad faith." While the Court in *United States* v. *Cia Naviera Continental S. A.*, (S.D. N.Y., 1959) 178 F. Supp. 561 speaks of "due diligence" the same Court in *Cocotas Steamship Co.* v. *Sociedad Maritime Victoria*, (S.D. N.Y., 1956) 146 F. Supp. 540, 542 held that nothing short of bad faith—improper practice or a manifest want of equity—would be sufficient to warrant the dissolution of a writ of foreign attachment. There must

be some difference between "lack of due diligence" and "bad faith" as the courts have also held that an order dissolving a writ does not in itself entitle the defendant to damages for wrongful attachment in absence of a showing of bad faith, *Applewhaite* v. *SS SUNPRINCESS*, (N.J., 1956) 136 F. Supp. 769; *Walsh Transportation Co.* v. *Iroquois Transit Corp.*, (S.D. N.Y., 1926) 16 F.2d 475; *Artenaho* v. *W. R. Grace & Co.*, (E.D. Va., 1923) 286 F. 762. The difference is important in this case as the first act of Olson Towboat in appearing in this action was to counterclaim against plaintiff to recover $15,000.00 as damages for alleged wrongful attachment. If "bad faith" is the standard for dissolving this writ the District Court should be quickly reversed because Olson Towboat never claimed and the record does not support a finding of "bad faith" on the part of plaintiff. By the same token, if such was or could have been an issue here and the order below is not reversed, then plaintiff might on basis of collateral estoppel find itself deprived of this important defense on the wrongful attachment counterclaim without really ever having had its day in court.

We firmly believe that the criteria on motion to dissolve a writ is or should be "bad faith" and not mere lack of "due diligence" if the valuable maritime remedy of foreign attachment is not to be made so precarious to use as to become discarded as a remedy by prudent and responsible litigants. However, we will argue this case on plaintiff's lack of due diligence; a less formidable hurdle for Olson Towboat

to overcome. Lack of due diligence was the only issue raised in the Court below and one which the record cannot reasonably support.

Shortly after the collision of October 4, 1966, plaintiff's investigation revealed that it was the barge of Oliver J. Olson & Co. which struck the bridge. Plaintiff found the Oliver J. Olson & Co. office in Coos Bay and learned that Tom Miller was its representative. Plaintiff, by letter of October 10, made demand upon Oliver J. Olson & Co. at its Coos Bay office (Ex. A to Rohde aff.). At this time it began to appear that the master of the tug JEAN NELSON was navigating the tug GO GETTER at time of collision. Olson Towboat had never been heard of. How well Olson Towboat was concealed in the woodwork of Oliver J. Olson & Co. at Coos Bay can be gleaned from the loud silence of Tom Miller in his affidavit when he stated that he had been served process before as a representative of Oliver J. Olson & Co. "on a number of occasions" but failed to mention he had ever been served process as an agent for Olson Towboat.

The next and most significant occurrence in this case is that George E. Rohde in Salem, Oregon, in response to his letter of October 10 to Oliver J. Olson & Co. at Coos Bay received a long distance telephone call from attorney Samuel L. Holmes in San Francisco. In that telephone conversation when Mr. Rohde mentioned that his investigation indicated that the master of the JEAN NELSON was aboard the tug

GO GETTER at time of the collision, Mr. Holmes stated that the master of the JEAN NELSON was employed by Olson Towboat which operated on the coast and that Olson Towboat was a separate and distinct company from Oliver J. Olson & Co. which owned the barge J WHITNEY. He also added that if Captain Charles May was aboard the GO GETTER he was there only as a passenger.

The San Francisco to Salem telephone conversation was followed up by a letter from attorney Holmes dated October 12 (Ex. A, Holmes aff.) wherein (presumably on behalf of both Oliver J. Olson & Co. and Olson Towboat) Mr. Holmes again reiterated that Olson Towboat was separate and distinct from Oliver J. Olson & Co. with neither corporation having an interest in the other. The letter then went on to state that neither Oliver J. Olson & Co. nor Olson Towboat were involved in or responsible for the collision.

It was the telephone call and letter from San Francisco which gave plaintiff for the first time knowledge of the existence and involvement of Olson Towboat. In the meantime, George E. Rohde, by investigation found: (1) Neither Olson Towboat nor Oliver J. Olson & Co. were qualified to do business in Oregon or had appointed an agent to receive process; (2) that while Oliver J. Olson & Co. had offices in Portland and Coos Bay with its name appearing in the telephone directory of both cities that Olson Towboat did not; (3) that the master of the JEAN

NELSON was navigating the GO GETTER and was not merely a passenger as claimed by Mr. Holmes; (4) that the barge J WHITNEY was owned by 12 or 13 individuals who appeared by name to be members of the Olson family and not by Oliver J. Olson & Co. as had been represented; and (5) that both of these California corporations through a San Francisco attorney were denying involvement in and responsibility for the bridge damage estimated at $240,000.00.

With this knowledge and investigation in hand, plaintiff, through George E. Rohde, employed an admiralty attorney and upon the latter's advice filed the libel in the District Court and caused the VIRGINIA PHILLIPS to be attached upon her entry into Oregon waters.

At the outset, the case at bar is unlike *United States* v. *Cia Naviera Continental S. A.*, (S.D. N.Y., 1959) 178 F. Supp. 561 as in this case it does not appear that plaintiff had prior business dealings with Oliver J. Olson & Co. as an agent for Olson Towboat or knew that Oliver J. Olson & Co. husbanded the Olson Towboat tugs and otherwise acted as its business agent in Oregon. Nor is the case at bar like *Federazione Italiana D.C.A.* v. *Mandask Compania D. V.*, (S.D. N.Y., 1957) 158 F. Supp. 107 where the plaintiff attached credits of a defendant in a New York bank, knowing that an officer of defendant could be found in his office in New York, but not telling the U. S. Marshal to serve him there. Nor

is this case like a number of other cases which have arisen in New York as result of a maritime business transaction where a plaintiff would go from one district of New York into another in order not to find the defendant present so that his bank funds could be garnished.

Due diligence can mean nothing more than acting as a reasonable man would act under like circumstances. Plaintiff made normal inquiry of sources where one normally looks to find out whether or not a foreign corporation has an agent in the state to receive process. Had Olson Towboat so much as had its name on the door of the Coos Bay office or conducted its business in any cognizable manner plaintiff, in making its reasonable search, would have found it as it did Oliver J. Olson & Co.

In this case the District Court misconceived the criteria of due diligence by applying too strict a concept as it must have concluded that plaintiff did wrong in not asking the Oliver J. Olson & Co. representative if he also represented Olson Towboat. No reasonable person in the position of plaintiff would have done such a thing if he gave any thought to the probable consequences. It could reasonably be expected that had inquiry been made of the Oliver J. Olson & Co. representative, that a negative or evasive answer would be given while word was being passed to Olson Towboat so its VIRGINIA PHILLIPS could either be diverted or permitted to scamper out of Oregon waters. In such eventuality plaintiff would

have found itself without jurisdiction over Olson Towboat in an action which required its presence. Plaintiff had to lay this most unusual collision case in Oregon if it was to secure *in rem* jurisdiction over the GO GETTER and *in personam* jurisdiction over the Oregon defendants.

A page could be borrowed from the *Melmay* (*Attachment*) (C. Z., 1932) 1933 A.M.C. 1057. In that case various plaintiffs were seeking to attach the MELMAY upon her passage through the Panama Canal and an enterprising defendant was seeking to appear voluntarily in the proceedings before attachment in order to defeat attachment. The Court in discussing this practice observed:

> ". . . But inasmuch as the right to attach property will be lost immediately by the respondents appearance, the marshal should not, by devoting time to a fruitless search for the respondent, lose the opportunity of attaching his property.
>
> * * * * *
>
> ". . . But, in a proper case, a libelant enjoys the right of foreign attachment and that right should not be lightly destroyed if it was legally exercised."

While plaintiff's main concern was to secure unequivocal *in personam* jurisdiction over Olson Towboat while it could do so, it was also to obtain security for its expected $240,000.00 decree for bridge damage. Security is as equally a legitimate purpose of the writ as is the purpose of insuring the defend-

ant's appearance. *Swift & Company Packers* v. *Compania Del Carib,* (1950) 339 U.S. 684.

Perhaps the clearest error of the District Court was its unwillingness to evaluate or apply to the measuring of plaintiff's due diligence the undisputed fact that the Olson corporations through their San Francisco attorney had represented Olson Towboat to be a separate and distinct company from Oliver J. Olson & Co. without also disclosing the fact that the Oliver J. Olson & Co employee at Coos Bay was also the agent for Olson Towboat. As innocently as this misrepresentation might have been conceived it had the effect of not only causing plaintiff to become suspicious of the true relationship of these two corporations, but, more important here, to abandon any thought that Tom Miller, known as an Oliver J. Olson & Co. employee could possibly be an agent of Olson Towboat.

A word about *alter ego*: In its motion Olson Towboat claimed that because plaintiff had alleged in its libel that Olson Towboat was the *alter ego* (and agent) of Oliver J. Olson & Co. that plaintiff should have known that Tom Miller, who was wearing an Oliver J. Olson & Co. hat also had in his pocket an Olson Towboat cap. The *non sequitur* aspect of this claim lies in the fact that the allegation at most suggests that plaintiff had knowledge that Oliver J. Olson & Co. was the corporate agent of Olson Towboat and not Tom Miller who later showed up as the agent. Furthermore, the allegation claimed Olson

Towboat the *alter ego* (and agent) of Oliver J. Olson & Co. and not vice versa. The allegation was obviously set forth in the libel so that at time of trial plaintiff might be able to prove, if it could, that Oliver J. Olson & Co. along with Olson Towboat was the employer responsible for the conduct of Captain May while navigating the GO GETTER.

It is also important to appreciate that only the allegation and not an established fact was claimed by Olson Towboat to conclusively bind plaintiff with knowledge it did not have and which was contrary to what had been represented prior to the attachment. The allegation was in no sense an admission against interest as would have been the case had Olson Towboat conceded or represented its *alter ego* relationship with Oliver J. Olson & Co. instead of denying it. In *Swift & Co. Packers* v. *Compagnia Del Carib*, (1950) 339 U.S. 684 the Supreme Court reversed an order vacating a writ because the libelant had alleged that the corporation which owned the vessel under attachment was the *alter ego* of the corporation which owed the maritime obligation and libelant had not been given an opportunity to prove its allegation which was essential to sustaining validity of the writ. Here, it was essential for Olson Towboat to prove that plaintiff knew or should have known that Tom Miller was an Olson Towboat agent prior to the attachment in order to defeat the writ. The allegation in plaintiff's libel even if it was in point could not fairly establish that fact.

We have found no case in the books like the one at bar. The situation here is comparable to the one where a party to litigation invites the trial judge to commit error and then complains of the error on appeal.

Reversal of the District Court is not only important to permit the plaintiff to retain the security it rightfully obtained in the attachment of the VIRGINIA PHILLIPS and to make unnecessary it defending a wrongfully brought, wrongful attachment counterclaim, but to also preserve for admiralty the writ of foreign attachment as a practical and useful remedy. This ancient writ will become too precarious for use by any responsible litigant if the requirement of due diligence must include inquiries which give vessel owners warning to keep their vessels out of the jurisdiction or permits defendants to conceal their agents as employees of other corporations and then to bring them out into the open after attachment for the purpose of dissolving the writ.

CONCLUSION

Irrespective of whether the District Court erred in reaching unexpressed conclusions of fact or unexpressed conclusions of law it was clearly erroneous in dissolving the writ of foreign attachment. The affidavit record in this case cannot support any finding that Olson Towboat was present in Oregon in the jurisdictional sense or that plaintiff lacked due dili-

gence in not discovering that the Oliver J. Olson & Co. representative in Coos Bay was also the agent of Olson Towboat qualified to receive process.

Respectfully submitted,

Robert Y. Thornton,
Attorney General of Oregon
George E. Rohde, Chief Counsel
Oregon State Highway Commission,
Frank C. McKinney, Assistant Counsel
Oregon State Highway Commission,
William F. White, Special Assistant
Counsel,
Attorneys for Appellant.

CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

William F. White,
Of Attorneys for Appellant

No. 22233

United States
COURT OF APPEALS
for the Ninth Circuit

STATE OF OREGON, by and through its State Highway Commission, composed of Glenn L. Jackson, Kenneth N. Fridley and David B. Simpson,

Appellant,

v.

Tug GO GETTER, et al including OLSON TOWBOAT CO., a California corporation,

Appellee.

APPELLEE'S ANSWERING BRIEF

Appeal from the United States District Court for the District of Oregon

HONORABLE GUS J. SOLOMON, District Judge

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APPELLEE'S ANSWERING BRIEF

Appeal from the United States District Court for the District of Oregon

HONORABLE GUS J. SOLOMON, District Judge

STATEMENT OF JURISDICTION

Appellant, the State of Oregon, filed this proceeding in admiralty (R. 1), alleging jurisdiction under 28 U.S.C. 1333. Appellant then caused the District Court clerk to issue process of foreign attachment and

a United States Marshal seized appellee's tug, the VIRGINIA PHILLIPS, at Bandon, Oregon.

Appellee subsequently moved to dissolve the writ of foreign attachment (R. 26). The motion was supported by affidavits and counter and reply affidavits were also filed (R. 37, 42). After oral argument, appellee's motion was granted and an order was entered dissolving the writ (R. 50).

Appellant filed its notice of appeal from that order and apparently claims jurisdiction of this Court is conferred by 28 U.S.C. 1291. (Appellant's statement of jurisdiction refers to 28 U.S.C. 1991—Appellant's Brief 2).

STATEMENT OF THE CASE

This proceeding arises out of a collision between the dumb barge J. WHITNEY, while in the tow of the tug GO-GETTER, and the Oregon state highway bridge at Bullard, near Bandon, Oregon. The plaintiff made personal or substituted service of its original libel in rem (and subsequent amended complaint) on all defendants except the appellee, Olson Towboat Company. The State of Oregon sought to obtain jurisdiction over appellee by attaching its tug VIRGINIA PHILLIPS under a writ of foreign attachment.

This appeal presents three questions:

(1) Did the district judge commit error or abuse his discretion in determining that appellee was jurisdictionally present in the District of Oregon and

could have been found there for service of process had appellant made a reasonable effort to do so?

(2) Was appellant bound by the allegations of its original libel (and amended complaint) to the effect that one defendant (allegedly "not found" within the district) and another defendant (admittedly "found" within the district) are one and the same ("alter ego"), so as to preclude the use of foreign attachment against the allegedly "not found" defendant?

(3) Was appellant's affidavit, filed pursuant to Supplemental Rule B(1) of the Federal Rules of Civil Procedure, sufficient to sustain the issuance of the process of foreign attachment?

The practical effect of appellant's appeal is that appellant (a) is seeking to retain the benefit of the security it extracted from appellee after the attachment of the VIRGINIA PHILLIPS, and (b) is seeking to avoid any potential liability to appellee for appellee's loss sustained when the vessel was tied up under the writ of attachment for approximately three weeks.

Although it does not appear in the designated record, appellee subsequently appeared in the suit, filed an answer, counterclaim and cross-complaint, and claimed damages from appellant in the amount of $15,000.00 for its loss of use of the tug VIRGINIA PHILLIPS while held under process. Appellant has moved to dismiss this counterclaim, the matter has been argued to the District Court, and the motion to

dismiss denied, with leave to appellant to renew it after trial on the issues of liability. The District Court then consolidated the actions based on the petition for limitation of liability filed by Sause (the owners of the tug GO-GETTER), the appellant's amended complaint and the various cross-complaints. The Court segregated the issues of liability and right to limitation, from the issues of value of the GO-GETTER, the amount of damage sustained by appellant and the amount of appellee's damages, reserving the latter damage and value issues until after trial on the liability issues. The trial has been held on liability and right to limitation and the trial court is now awaiting preparation of a transcript of testimony and submission of trial briefs.

In appellant's affidavit for attachment (R. 9), made to comply with Supplemental Rule B(1) of the Federal Rules of Civil Procedure, one of appellant's attorneys, Mr. Patterson, stated he believed both defendant Oliver J. Olson & Company and defendant Olson Towboat Company were California corporations, and continued:

> "I checked the corporation division of the Commerce Department and ascertained that neither corporation is an Oregon corporation and *neither* corporation as a foreign corporation, if doing business in Oregon, is *not* qualified to do such and in any event has *no* registered agent to receive process in the State of Oregon." (Emphasis added)

Mr. Patterson further stated that he knew of no

officer or agent qualified to receive process and therefore stated "that each and both of said defendants cannot be found within the District of Oregon."

Subsequently, in an affidavit (R. 37) opposing appellee's motion to dissolve the attachment, another of appellant's counsel, Mr. Rohde, stated that prior to the filing of the action he checked the office of the Corporation Commissioner and found that neither Oliver J. Olson & Company nor Olson Towboat Company had qualified to do business in Oregon or had appointed an agent for service of process in the state. He continued:

> "I knew Oliver J. Olson & Company had an office in Coos Bay, Oregon, and that Mr. Miller represented that company. A check in the telephone directories in Portland and Coos Bay showed Oliver J. Olson & Company as being listed, but not Olson Towboat Company."

With its motion to dissolve the attachment appellee filed an affidavit (R. 26) of Thomas E. Miller, who is employed by both Oliver J. Olson & Company and Olson Towboat Company at Coos Bay, Oregon. Mr. Miller stated that he is the managing agent for appellee in Oregon and handles all of appellee's shoreside business in Oregon, such as "taking applications for employment, arranging for replacements and crew, repairs to the vessel, drydocking, dispatching the tugs, ordering necessary supplies, fuel, oil, etc., . . .". He continued that no inquiry was ever made of him and that it was his belief that if anyone had inquired on the waterfront in Coos Bay they would have been

advised that he (Miller) was Olson Towboat's managing agent.

Appellee also filed a reply affidavit (R. 42) of Samuel Holmes, one of its attorneys. Mr. Holmes stated, among other things, that he had spoken with Mr. Rohde prior to the attachment and that no inquiry had been made concerning Olson Towboat either doing business in Oregon or having an agent in the state. It was also set forth that Olson Towboat had "for a number of years" maintained an account with the State of Oregon's workmen's compensation fund.

SUMMARY OF ARGUMENT

(1) Appellee could have been "found" within the District of Oregon, both jurisdictionally and for service of process, and no reasonable effort to do so was made by appellant prior to its seizure of the tug VIRGINIA PHILLIPS.

(2) Appellant, in an attempt to improve its position in the main suit, alleged in a verified "libel" (complaint) that Oliver J. Olson & Company and Olson Towboat Company were one and the same (alter ego). It then ignored its allegation by claiming that Olson Towboat could not be found within the district, although admittedly its alter ego, Oliver J. Olson & Company, could be and was found within the district. Appellant should be bound by its pleadings.

(3) The original affidavit for attachment (R. 9) required under Supplemental Rule B(1) of the Fed-

eral Rules of Civil Procedure was insufficient in that it stated "that neither corporation is not qualified" (to do business in Oregon) and "in any event has no registered agent to receive process in the State of Oregon . . .". If the double negative was a mistake, there was ample opportunity to correct it during the hearing upon the motion.

ARGUMENT

This appeal is from an order granting appellee's motion and dissolving the writ of foreign attachment. We submit that the burden is on the appellant to show that the District Court's decision was "clearly erroneous." (*Seawind Compania, S.A.* v. *Crescent Line, Inc.*, 320 F.2d 580 (2nd Cir., 1963)).

An analogous factual situation arose in *Goodman* v. *United States*, 369 F.2d 166 (9th Cir. 1966). In affirming a district judge's quashing of service of subpoenas the appellate court stated:

> "Although the trial court gave no reason for quashing the subpoenas, we must assume that he did so because he found them to be unreasonable and oppressive. Pursuant to Rule 52(a) of the Federal Rules of Civil Procedure, our inquiry is limited to finding out whether the ruling was clearly erroneous." (p. 169)

Despite the lack of written findings on the motion, it must be assumed that the District Court simply determined that appellee could have been "found" within the district under both prongs of inquiry. In addition to the motion, affidavits and memoranda, the

district judge had the benefit of oral argument and that unreported portion of the case is not now available as a part of the record. The question is whether the determination was "clearly erroneous." See, also, *McAllister* v. *United States*, 348 U.S. 19, 99 L. Ed. 20 (1954).

In addition appellant insists that the element of security is equal in importance to that of obtaining jurisdiction under a writ of foreign attachment. Admittedly, the decisions do speak of a dual purpose. (*Swift & Company Packers* v. *Compania Columbiana Del Caribe, S. A.*, 339 U.S. 684, 94 L. Ed 1206 (1950)). It is clear, however, that the primary object of the attachment is the obtaining of an appearance, while the obtaining of security for a libelant's claim is an incidental purpose. (*Manro* v. *Almeida*, 23 U.S. (10 Wheat.) 473, 6 L. Ed. 369 (1825)).

1. Appellee could have been found within the District had appellant made a reasonable effort to do so.

It is undisputed between the parties that on a motion to vacate a foreign attachment the essential issue is whether the respondent could have been "found" within the District. The quotation from *United States* v. *Cia Naviera Continental S.A.*, 178 F. Supp. 561 (S.D. N.Y., 1959) set forth in appellant's brief (p. 16-17) accurately defines the dual requirements of being found. Appellee was present under both of these requirements. The District Court was correct in vacating the attachment.

(A) Requirement Number One

The first inquiry is whether the appellee was present in the district by being susceptible to the jurisdiction of the Court. The standard here is not what appellant knew, but what the facts actually were.

In *United States* v. *Cia Naviera Continental, S.A.*, *supra*, the respondent in a foreign attachment proceeding was held to have been present in the district and subject to the court's jurisdiction. Although respondent's principal place of business and site of incorporation were elsewhere and it had neither office nor telephone listing in the district, there was evidence of sufficient continuous business activity. Charter parties had been executed by a local company as "agents" for respondent and vessels belonging to respondent were berthed and repaired in the district. Respondent also maintained two accounts in local banks.

In the present case Thomas Miller stated by affidavit that he handled all of appellee's shoreside business in Oregon. Appellant quotes this statement and refers to it as a self-serving conclusion (Appellant's Brief, 17) in support of its contention of insufficient business activity. Appellant failed to include the full paragraph of the affidavit wherein Mr. Miller expanded upon the business done "such as taking applications for employment, arranging for replacements and crew, repairs to the vessel, drydocking, dispatching the tugs, ordering necessary supplies, fuel, oil, etc., as the case may arise" (R. 26). It is undisputed that Olson Towboat Company maintains an account

with the Oregon State Compensation Department and also files information returns with the Oregon State Tax Commission. It is difficult for appellee to understand how the activities enumerated above are less than those found to be sufficient by the New York court in *United States* v. *Cia Naviera Continental, S.A., supra.*

D/SA/S Flint v. *Sabre Shipping Corporation,* 228 F. Supp. 384 (E.D. N.Y. 1964), was another case in which a nonresident corporation's business activities were held to render it present under the first requirement of being "found" within the district. There respondent frequently loaded and unloaded cargo at a local pier and maintained records and a claims manager there.

In *Federazione Italiana D.C.A.* v. *Mandask Compania D.V.,* 158 F. Supp. 107 (S.D. N.Y., 1957), another motion to vacate a foreign attachment was granted. The respondent did not have a telephone or a building directory listing, nor did its name appear on its office door. The court held, however, that since a bank account was maintained, correspondence was sent and received, corporate books kept, an information listing recorded, and a corporate officer regularly present, all in the district, it was "plain that *if respondent had been served with process of this court, it could not have escaped this court's jurisdiction.*" (Emphasis added). While the enumerated activities were not identical to those carried on by Olson Towboat in Oregon, we submit that the result of the test emphasized above would be the same, i.e., if Olson

Towboat had been served it could not have avoided the district court's jurisdiction.

Appellant cites *Seawind Compania S.A.* v. *Crescent Line, Inc.*, 320 F.2d 580 (2nd Cir., 1963), as authority for the proposition that appellee's business activity was not sufficient to sustain jurisdiction here. The motion to vacate in that case, however, also was allowed. The court noted that although the keeping of corporate records and the presence of corporate officers might not be sufficient activity, the contract out of which the litigation arose was made and breached in the district. It was held that because of this activity the respondent could clearly be made subject to suit in New York, even in the absence of a resident agent expressly authorized to accept process.

As a final point in the present case it should be mentioned that the State of Oregon has provided by its so called "long arm" statute (ORS 14.035(1)) that any person or corporation transacting any business *or* committing a tortious act within the state is subject to the jurisdiction of Oregon courts. The federal district court has been held to have jurisdiction under this Oregon statute. (*Rosenlund* v. *Transnational Insurance Company*, 237 F. Supp. 599 (Or., 1964)). There can be little doubt that either the allegations of appellant's complaint or the business activity Olson Towboat carried on in the district would have subjected Olson Towboat to the jurisdiction of the Oregon court. The fact that this is an admiralty proceeding does not effect this conclusion. (*D/SA/S Flint* v. *Sabre Shipping Corporation, supra*)

"Because neither Admiralty Rule 1, nor Rule 2, nor any of the other Admiralty Rules, specify the Territorial limits for effecting service of process we may look to the Federal Rules of Civil Procedure, in particular, and to state practice in determining where respondent was subject to service." (*Chilean Line* v. *U. S.*, 344 F.2d 757, 760 (2nd Cir., 1965)).

(B) Requirement Number Two

Once the question of whether appellee could have been "found" in the jurisdictional sense is resolved, the question which must next be answered is whether it could have been "found" for the service of process.[1]

Appellant attempts to imply that an unsuccessful search for a respondent may only be attacked and the ensuing writ of foreign attachment dissolved where the search is conducted in "bad faith." We respectfully suggest that this neither is nor should be the test. Appellant was required to use reasonable diligence to discover the presence of Olson Towboat for service of process. (*Seawind Compania S.A.* v. *Crescent Line, Inc.*, 320 F.2d 580 (2nd Cir., 1963); *Federazione Italiana D.C.A.* v. *Mandask Compania D.V.*, 158 F. Supp. 107 (S.D. N.Y., 1957)).[2]

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[1] Under the Oregon Foreign Corporation Act, ORS 57.655 (2) (i), a foreign corporation transacting business in interstate commerce is not required to qualify or to maintain of record an agent for service of process and hence appellant's inquiry to the Department of Commerce is not significant.

[2] Whatever the test or standard which is required for the allowance of damages in a wrongful attachment case may be, it has no relevance to the standard of conduct which is required to sustain a writ of foreign attachment.

There is no doubt that the marshal did not attempt to locate and serve an agent of the Olson Towboat Company. In fact, there is not even a "not found" return evidenced in the court file. While a marshal is not required to make a "fruitless search," he himself has a duty to endeavor to find the party before attaching property. (*The Valmar*, 38 F. Supp. 615 (E.D. Penn., 1941)).

In *Seawind Campania S.A.* v. *Crescent Line., Inc.*, *supra*, a claim was made that the respondent could not have been found for service of process. There was no dispute that managing agents had been present within the district at all times. Although a contract with the libellant had been signed by these agents, libellant contended that because the corporate name of respondent had been changed libellant no longer knew whether these agents were still officers of the respondent. The court decided that, even if libellant were ignorant of the continuing relationship of these agents, it must be assumed that appropriate inquiries would have revealed these facts. No such inquiries were made. Respondent was held to have been present and capable of being found.

Federazione Italiana S.C.A. v. *Mandask Compania D.V.*, *supra*, also involved a contention that the respondent could not be found. Libellant there knew that a corporate officer was present in the district. While the facts of that case were admittedly even stronger for dissolution than those in the present case, it should be noted that again the court called attention to the lack of inquiries made by the libellant.

Had appellant in this case bothered to make any inquiry at the place of business of a corporation alleged to be the "other self" of Olson Towboat Company, it could hardly have not learned that the latter was doing business in Oregon and had an agent to accept process. Appellant places great emphasis on the fact that, had any inquiry been made of Thomas Miller, the chance of attaching any Olson Towboat vessel would have been lost. The implication, of course, is that Mr. Miller would have lied and promptly warned all of appellee's tugs to stay out of Oregon waters. The fallacy of this logic is readily made apparent by a reading of appellant's own brief, reciting the series of events preceding the attachment. Appellant admits that Mr. Rohde spoke by telephone with, and received a letter from, Olson Towboat's attorney in San Francisco, Mr. Samuel Holmes, prior to taking any action (Appellant's Brief 22-23). If Mr. Holmes had wished to avoid an attachment he certainly had time to warn Olson vessels. A subsequent inquiry by appellant would, therefore, have given Thomas Miller no information which Olson Towboat did not already have. The opportunity for its vessels to "scamper" had already arisen.

Appellant also contends that Mr. Holmes "misrepresented" facts to Mr. Rohde concerning Mr. Miller being an Olson Towboat agent (Appellant's Brief 27). We suggest that this statement is particularly ill chosen. No such question was ever asked of Mr. Holmes. Again, appellant simply neglected or ignored an opportunity to make an inquiry which would have re-

sulted in its receiving information making an attachment improper (Affidavit of Samuel Holmes, p. 3—R. 42). Because Mr. Holmes did not volunteer the information, no inquiry having been made, appellant now seeks to justify its decision to "abandon any thought" that Thomas Miller was an Olson Towboat Company agent (Appellant's Brief 27). Appellant now claims that the court below wrongly evaluated the State's lack of due diligence.

There is also no evidence to contradict the statement in Mr. Miller's affidavit that:

> ". . . I believe that if anyone had inquired on the waterfront, particularly among any of the ship supply houses, oil docks, or other tugboat companies, he would have been advised that I am the managing agent for Olson Towboat Company in this state." (R. 26).

Again, no such inquiries were ever made by appellant or the marshal. The record sustains the proposition that time after time the appellant simply (or deliberately?) failed to ask questions. This is hardly consistent with the "due diligence" it claims to have exercised.

We have previously contended that the Oregon "long-arm" statute (ORS 14.035) can furnish a basis for the finding that Olson Towboat Company was present in Oregon in the jurisdictional sense. Carrying this argument to its logical conclusion, the same statute can also be said to have enabled appellant to find appellee for service of process.

Similar reasoning has been employed in other foreign attachment decisions. In *D/SA/S Flint* v. *Sabre Shipping Corporation*, 228 F. Supp. 384 (E.D. N.Y., 1964), the court assumed *arguendo* that respondent could not have been physically served within the district, but went on to consider the question of whether the respondent was nevertheless within reach of the process of the court. Judge Zavatt noted that methods of service prescribed by the Federal Rules of Civil Procedure are substantially the same as in the admiralty practice. Since the action was commenced in the eastern district of New York and respondent was present in the southern district, the court held that under Rule 4(f), which permits service of process anywhere within the state in which a United States District Court is located, the respondent could have been served in the southern district and the procedure of attachment rendered inapplicable. (See also, *Chilean Line* v. *U.S.*, 344 F.2d 757 (2nd Cir., 1965) and *S.S. Philippine Jose Abad Santos* v. *Bannister*, 335 F.2d 595 (5th Cir., 1964)).

The Court in the *Flint* case, *supra*, was only concerned with another district in the same state. Rule 4(f) also provides, however, that a summons may be served beyond the territorial limits of the state when authorized by the federal rules. Such authorization can be found in Rule 4(e), which provides in part:

> "Whenever a statute or rule of court of the state in which the district court is held provides (1) for service of a summons upon a party not an inhabitant of or found within the state . . . ,

> service may in either case be made under the circumstances and in the manner prescribed in the statute or rule."

Under ORS 14.035, a state statute, service on Olson Towboat Company was authorized under either the doing of business section or the commission of an alleged tort section. Rule 4(e), in turn permitted the application of the state statute to the federal proceeding. Appellee could have been "found" by appellant for service of process even if it had not known of Thomas Miller being present in Oregon as appellee's agent.

2. Appellant should be bound by its allegations of "alter ego."

Appellant alleged in its libel (R. 1, paragraph VII) that appellee, Olson Towboat Company, was the alter ego of defendant Oliver J. Olson & Company. "Alter ego" is literally defined as meaning "other self." It means simply that the separate corporate entity of one corporation is disregarded and two corporations are regarded as one. The result is a piercing of the corporate veil. (See *National Bond Finance Co.* v. *General Motors Corporation*, 238 F. Supp. 248 (W. D. Mo., 1964.))

Appellant's motive in this instance for alleging that the two corporations are identical was to impose liability on defendant Oliver J. Olson & Company by charging it with responsibility for the alleged negligence of an Olson Towboat Company employee alleg-

edly acting within the scope of his employment. This was a legitimate allegation and appellant could well have benefited from proving the contention that these two defendants were not separable entities. However, appellant based its writ of attachment on the antipodal proposition that one of the corporations could be found in Oregon while the other could not.

In *Swift & Company Packers* v. *Compania Colombiana Del Caribe*, 339 U. S. 684, 94 L. Ed. 1206 (1950), a Colombian corporation's vessel was seized under a writ of foreign attachment. Prior to the attachment, but after potential liability became apparent, the vessel had been transferred to a second corporation. The second corporation was subsequently added as a defendant. Plaintiff claimed that the transfer was fraudulent and also alleged that the transferee was the "*alter ego*" of the transferor. While Justice Frankfurter's opinion dealt with the jurisdiction of the admiralty court to determine the issue of fraudulent transfer, he added the following footnote:

> "Libellants also sought to hold Del Caribe personally liable for the destruction of the Cali's cargo of rice on the ground that it was merely the alter ego of Transmaritime. Success on this theory would render the issue of fraudulent transfer irrelevant, for then the assets of either company could be attached . . ."

Appellee here contends that the converse is true. Under appellant's alter ego theory, if the Olson Towboat Company was the "other self" of Oliver J. Olson & Company, and Oliver J. Olson & Company was ad-

mittedly "found" within the jurisdiction, then the assets of neither corportaion could be subject to foreign attachment.

Although it does not appear in the record, at the time appellee's motion was orally argued the Court asked counsel for appellant if he would consent to abandoning the contention of alter ego. Counsel at that time indicated he would do so, but shortly thereafter advised the Court by letter that appellant would not withdraw that contention.

Appellant now contends that its allegation would "at most" indicate it knew that Oliver J. Olson & Company, rather than Thomas Miller, was the corporate agent of Olson Towboat Company (Appellant's Brief 27). We suggest that appellant misunderstands the concept of alter ego. It is wholly different from the concept of principal and agent. If Olson Towboat Company was the alter ego of Oliver J. Olson & Company and Thomas Miller the agent of the latter, then Miller, by appellant's own allegation, was also the agent of Olson Towboat. The fact that Olson Towboat was alleged to be the alter ego of Oliver J. Olson & Company, rather than vice versa, makes no difference.

In *U. S.* v. *Buffalo Weaving Co.*, 155 F. Supp. 454 (S.D. N.Y., 1956), an action was brought against an Ohio corporation and its two subsidiaries, one in Ohio and the other in New York. The president of the Ohio parent company was served with the process while at the office of the New York subsidiary. The

Ohio corporation moved to quash the service since it did no business in New York. It claimed it was unlicensed in that state, had no office or phone and kept no books or records there. The court found the separation of the corporations to be fictitious, held the parent was therefore doing business in New York, and sustained the service.

A Nevada case, *Frank McCleary Cattle Co.* v. *Sewell*, 73 Nev. 279, 317 P.2d 957 (1957), dealt with the effect of alter ego on an execution. A judgment was obtained against one corporation and the assets of another were executed on by the plaintiff who claimed one to be the alter ego of the other. After finding the corporations to be inseparable in terms of unities of interest and ownership, the court held them to be identical for purposes of execution. See also, *Intermountain Ford Tractor Co.* v. *Massey-Ferguson, LTD*, 210 F. Supp. 930 (Utah, 1962); affirmed, 325 F.2d 715 (10th Cir., 1963).

In all of the cases cited alter ego was applied and corporate forms were disregarded. The results were that separate entities were treated as one.

The relationship is more than merely principal and agent, as appellant apparently believes. In this case, the only agent was Thomas Miller. Under appellant's theory Miller was an agent for both Oliver J. Olson & Company and the Olson Towboat Company. Olson Towboat should have been "found" within the district and served by serving Mr. Miller. The remedy of foreign attachment was inapplicable by virtue of appellant's own allegations.

3. Appellant's original affidavit for attachment was insufficient to support issuance of a writ.

In its original affidavit appellant alleged that "neither" corporation had "no registered agent to receive process in the district of Oregon." We submit that this statement was the equivalent of an allegation that, for example, neither party was not at fault (in other words, both parties are at fault). Appellee conceded at the time of argument of the motion to dissolve, and concedes now, that this was probably a grammatical error and appellant probably intended to allege that "neither had an agent for service." The fact remains, however, that no effort was made to cure this defect, nor any supplemental affidavit filed (until Mr. Rohde's affidavit in opposition to the motion, R. 37), nor any petition made for leave to amend.

Supplemental Rule B(1) of the Federal Rules of Civil Procedure provides, in part, that a verified complaint may contain a prayer for process to attach a defendant's goods and chattels "if the defendant shall not be found within the District." The Rule continues: "Such a complaint shall be accompanied by an affidavit signed by the plaintiff or his attorney that to affiant's knowledge, or to the best of his information and belief, the defendant cannot be found within the District." The affidavit here (through its double negative) actually alleged that appellee had a registered agent for service in the district. The original libel alleged (R. 1, paragraph V) that Oliver J. Olson & Company, a California corporation, had no registered

agent for service of process in the State of Oregon. It did not have a similar allegation as to appellee Olson Towboat Company.

CONCLUSION

It is respectfully submitted that the District Court's ruling vacating the foreign attachment was correct and without error. It is now apparent that appellant was primarily concerned with obtaining the tactical advantage of seizing security rather than following the legitimate paths to jurisdiction and service of process. Had appellant exercised the same degree of diligence in inquiring as to appellee's status that it displayed in seizing appellee's tug, it would have become obvious that both jurisdiction and service in the district were readily available. Affirming the lower court can hardly result in the remedy of foreign attachment becoming (as claimed by appellant) "too precarious for use by a responsible litigant." On the contrary, a reversal would invite abuse of that remedy and result in harassment and economic loss to a party suffering an attachment in circumstances where it was never intended to be used. The order of the District Court was sound and should be affirmed.

Respectfully submited,

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Attorneys for Appellee

CERTIFICATE OF COUNSEL

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

WALTER H. EVANS, JR.
Of Attorneys for Appellee

No. 22233

United States
COURT OF APPEALS
for the Ninth Circuit

STATE OF OREGON, by and through its State Highway Commission, composed of Glenn L. Jackson, Kenneth N. Fridley and David B. Simpson,

Appellant,

v.

Tug GO GETTER, et al, including OLSON TOWBOAT CO., a California corporation,

Appellee.

APPELLANT'S REPLY BRIEF

Appeal from the United States District Court for the District of Oregon

HONORABLE GUS J. SOLOMON, District Judge

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HONORABLE GUS J. SOLOMON, District Judge

By way of reply:

Since the motion to dissolve the writ of foreign attachment was presented to the District Court wholly upon affidavits this Court may review the facts free of the impact of the clearly erroneous rule, *Mo-*

bil Tankers Company v. *Mene Grande Oil Company* (3 Cir. 1966) 363 F.2d 611.

NOT FOUND—corporate presence

Upon the threshhold of its motion to vacate the writ Olson Towboat was required to prove that it had actually done business in Oregon to some substantial degree and in some systematic manner. It did not.

The two supporting affidavits of Olson and Miller (Tr. 26) were illusory. They did not state that Olson Towboat had ever had its tugs repaired, or had ever ordered fuel or had ever hired crews in Oregon but, instead, merely stated that Thomas E. Miller (the Oliver J. Olson & Co. manager) was employed as a managing agent whose duties were "transacting whatever shoreside business is necessary in the Coos Bay area." This oblique approach is interesting because Olson Towboat seeks to excuse its failure to have appointed an agent in Oregon to receive process upon the basis that it was strictly engaged in interstate commerce (Appellee Br. 12). Obviously, had Olson Towboat ever put its vessels in an Oregon shipyard or had made local purchases it would have fallen from its interstate "tight rope."

What renders these supporting affidavits totally inadequate are their loud silence in respect to how many vessels this San Francisco tugboat company operated and how frequently, if at all, they entered Oregon waters. Failure to state such obvious inter-

state activity justifies the suspicion that only Oliver J. Olson & Co. and not Olson Towboat was doing business in Oregon.

Indicia of doing business, such as maintaining a telephone listing, or a bank account and the like are most often employed when the shoe is on the other foot and an outsider is trying to show that a foreign corporation is doing business in a district. When, as here, a foreign corporation has the power to state directly and precisely what business it has conducted in a district a court as a matter of law should not regard as sufficient a statement that an agent exists to do whatever business is necessary and leave to conjecture that which in fact was done. It is axiomatic in admiralty and established statutory law in Oregon, ORS 17.250 (6) (7), that evidence is to be estimated according to that which a party has the power to produce and that if weaker and less satisfactory evidence is offered when stronger and more satisfactory evidence is within the power of the party to produce the evidence offered should be viewed with distrust.

Finally, we should point out that the four cases cited by Olson Towboat really support plaintiff because most of the indicia of corporate presence found in those cases are totally absent in the case at bar.

In *United States* v. *Cia Naviera Continental S.A.* (S.D. N.Y., 1959) 178 F. Supp. 561 the foreign corporation not only had its vessels berthed and repaired in the District but the very contract sued upon was

executed in the district by a disclosed corporate agent. Not so here.

In *D/SA/S Flint* v. *Sabre Shipping Corporation*, (E.D. N.Y., 1964) 228 F. Supp. 384 the foreign corporation frequently loaded and discharged its vessels as well as maintained a claims office in the district. Not so here.

In *Seawind Compania S.A.* v. *Crescent Line, Inc.*, (2 Cir., 1963) 320 F.2d 580 the foreign corporation kept corporate books and records and had an officer regularly present in the District, and, of more importance, had executed and breached in the district the very contract sued upon. Not so here.

In *Federazione Italina D.C.A.* v. *Mandask Compania D.V.*, (S.D. N.Y., 1957) 158 F. Supp. 107 the foreign corporation maintained a bank account, conducted correspondence and had a corporate officer regularly present in the district. Not so here.

Had the District Court made a finding that Olson Towboat was corporately present in Oregon it would have been a clearly erroneous finding for lack of evidentiary support.

NOT FOUND—Plaintiff's "due diligence"

The critical issue here is whether or not the standard for measuring the conduct of plaintiff required it to have inquired of either San Francisco attorney Holmes or the Oliver J. Olson & Co. agent at Coos Bay in order to learn if Olson Towboat had an agent

in Oregon before attaching the VIRGINIA PHILLIPS. Did "due diligence" on part of plaintiff require a plaintiff to turn over every possible stone in its search for an Olson Towboat agent even though to do so would very probably mean "spooking" the tugs and defeating the writ?

On this second prong of the "not found" inquiry, unlike the first, plaintiff's conduct must be measured by what plaintiff knew or should have known; not what might appear later to have been the facts. Also, on this second prong, and unlike the first, this Court is reviewing an error of law and not an error of fact. The reason an error of law is involved is that the essential facts as presented in the Rohde (Tr. 37) and Holmes (Tr. 42) affidavits are not in dispute. What is in dispute is the legal standard upon which those facts were measured by the District Court when dissolving the writ. Such legal standard is reviewable without regard to the clearly erroneous rule. *Seawind Compania, S.A.* v. *Crescent Line, Inc.*, (2 Cir., 1963) 320 F.2d 580, 581. As this Court recognized in *Pacific Tow Boat Co.* v. *States Marine Corp.*, (9 Cir., 1960) 276 F.2d 745 the fixing of the pre-determined standard upon which to test facts is a jural act and hence a conclusion of law is required.

"Due diligence" is a general tort concept which cannot take on any meaning until viewed in the context of the facts to which it is to be applied. For example, had a reasonably prudent person been searching for Olson Towboat to give it an inheritance he

would obviously have injuired of its related Oliver J. Olson & Co. Would that same reasonably prudent person, seeking to secure unequivocal jurisdiction over Olson Towboat in a $240,000 bridge damage action and who was mindful of the ability of Olson Towboat to keep its tugs out of Oregon waters if warned of the intended action go so far as to inquire either of San Francisco attorney Holmes or the Oliver J. Olson & Co. agent in Coos Bay of the whereabouts of such an agent prior to attachment? We think not. Furthermore, any standard, whether described as "due diligence" or as "bad faith" which would call for such conduct prior to employing the writ of foreign attachment would be unreasonable and destructive of the intended use of the writ. It is likewise unreasonable, though for a different reason, to have required plaintiff in Salem, Oregon, to have canvassed the Oregon coastline and depended upon gossip to find out the existence or whereabouts of an Olson Towboat agent. The conjecture of Thomas E. Miller in his affidavit that he believed his identity would have become known if such inquiry had been made is of no probative value whatsoever.

It seems to us that the correct standard for measuring plaintiff's pre-attachment conduct requires some measure of "bad faith" before it qualifies to strike down a writ of foreign attachment. This is even seen in the cases which speak of "due diligence" as being the measuring stick. For example, consider *Seawind Compania S.A.* v. *Crescent Line, Inc.*, (2 Cir., 1963) 320 F.2d 580 as cited by Olson Towboat.

In that case the plaintiff claimed it could not find the defendant when it sued upon a contract which was signed in the district by the defendant's agent. Under such a situation it was obviously bad faith for a plaintiff not to have served the very agent which had signed the contract irrespective of whether or not the foreign corporation had changed its name.

Likewise, in *Federazione Italiana S.C.A.* v. *Mandask Compania D.V.*, (S.D. N.Y., 1957) 158 F. Supp. 107, the plaintiff knew of the presence of a corporate officer but did not tell the U. S. Marshal to look him up. In this case plaintiff did not even know Olson Towboat was involved in the collision until Attorney Holmes on the telephone from San Francisco told plaintiff's Chief Counsel that Captain May was employed by Olson Towboat and not Oliver J. Olson & Co.

In discussing the standard with which to adjudge a person's conduct in using a writ we are brought again to *Cocotas Steamship Co.* v. *Sociedad Maritime Victoria* (S.D. N.Y., 1956) 146 F. Supp. 540, 542 where it was held that nothing short of "improper practice or a manifest want of equity" is sufficient to defeat a writ of foreign attachment. Upon rereading this case we find a footnote indicating such standard was based upon a local court Admiralty Rule 21. We know of no similar local rule in the Oregon District. It is plaintiff's contention that the local rule of the Southern District of New York merely expressed what has long been the custom and practice of the admiralty bar in Oregon and elsewhere.

The maritime law with its ancient writ of foreign attachment has been too long steeped in practicality to permit the lawful use of the writ to hang upon the delicate balance of an admiralty lawyer's careful judgment versus careless judgment. This should be so because the dual purpose of the writ—insuring an appearance and obtaining security, immediately imposes upon the practitioner the mixed duty of having to look but hoping not to find. Furthermore, implicit in any order dissolving a writ is abuse of process. From abuse of process stems wrongful attachment which, in order to be actionable, requires both lack of probable cause and presence of intent to act primarily for an ulterior purpose, *Restatement, Torts,* Vol. III, Section 677. Nothing of this sort is present in this case. Plaintiff did not know of an Olson Towboat agent and although it made what it regarded to be reasonable inquiry it found no agent. That should have ended the matter.

Plaintiff does not accuse Attorney Holmes of bad faith just as Olson Towboat does not accuse plaintiff of bad faith. Our point is that his innocently made representation of the two corporations being separate and distinct of necessity implied that its officers and personnel were likewise separate and distinct. This representation had the effect of negativing any thought that the Coos Bay manager of Oliver J. Olson & Co. was also the manager of Olson Towboat. This representation should be viewed with the fact that plaintiff's search had revealed that Oliver J. Olson & Co. was shown in telephone directories as

having offices in Coos Bay and Portland, while Olson Towboat was not. The only belief that could be formed was that Olson Towboat was a San Francisco based tugboat company which brought its tugs into Oregon waters only fleetingly, if at all.

Olson Towboat argues in its brief that plaintiff ignored an opportunity to make inquiry of Mr. Holmes when he telephoned from San Francisco. Inquiry of the existence or whereabouts of an Olson Towboat agent to receive process was not made for much the same obvious reason that the information was not volunteered. Mr. Holmes was bent on persuading plaintiff that the Olson corporations were not involved in the collision (Tr. 42, Letter Oct. 12, 1966). He did not want to suggest they be named as defendants in potential litigation let alone volunteer an appearance. Plaintiff, on the other hand, very prudently wished to secure unequivocal jurisdiction over these corporations. A discussion of intended action could only have resulted in Olson Towboat keeping its tugs out of Oregon, if as believed it was not doing business in Oregon. There was nothing sinister about the conduct of either Attorney George E. Rohde or Attorney Samual L. Holmes in the San Francisco to Salem telephone conversation. Nor was there anything sinister about plaintiff wishing to use the writ of foreign attachment to accomplish both the appearance of Olson Towboat and the security of its tug VIRGINIA PHILLIPS. *Swift & Company Packers* v. *Campagnia Del Caribe* (1950) 339 U.S. 684.

However, with Attorney Holmes having injected himself into the normal routine of plaintiff undertaking to find Olson Towboat in Oregon, we say, as did Judge Sugarman in *Cocotos S. S. Panama* v. *Sociedad Maritime Victoria*, (S.D. N.Y., 1956) 146 F. Supp. 540 in respect to the "Maria" motion at page 543:

> ". . . it ill behooves Maria to now attempt to escape the natural consequences of its omissions and silence."

Until the Olson Towboat brief was received, plaintiff's counsel did not realize that the U. S. Marshal had not included a "not found" with his return or that the original affidavit for attachment had included a double negative. These matters were never raised upon oral argument. In any event, lack of a "not found" can be easily corrected on remand. *Swift & Company Packers* v. *Compagnia Del Caribe*, (1950) 339 U.S. 684; *International Grain Co.* v. *Dell*, 13 F. Cas. 76, No. 7,053, and technical niceties are not permitted to defeat a writ of foreign attachment, *Esso Standard* (*Switzerland*) v. *The AROSA SUN*, (S.D. N.Y., 1960) 184 F. Supp. 124.

Plaintiff's ALTER EGO allegation was a contention and not an admission of fact.

When plaintiff alleged an *alter ego* relationship between the two Olson corporations in order to fix liability upon Oliver J. Olson & Co. for the conduct of Captain Charles May, plaintiff was not making an admission of fact adverse to itself but rather charging defendant with having a corporate relationship

which, if later proven, would be adverse to defendants. The allegation did not prove the fact any more than it proved plaintiff's knowledge of the fact.

Prior to the attachment Attorney Holmes had told plaintiff that the two Olson corporations were separate and distinct companies (Tr. 37, 42). While hoping later to prove otherwise, plaintiff had a right to rely upon such representation of Mr. Holmes for purpose of the writ. This was not a situation where plaintiff was alleging its own *alter ego* relationship with another but rather one where it was claiming that two defendant corporations to which it was an utter stranger were so related in their operations that one should be considered as the other. Only by alleging *alter ego* could plaintiff have litigated this legitimate issue and only by the attachment could plaintiff have brought in Olson Towboat in order to litigate it.

It would have been unreasonable for plaintiff's right to a writ to hang or fall upon its ability to prove its allegation of *alter ego* because such allegation involved only one facet of the case. Furthermore, proof of *alter ego* in a case, as here, where the plaintiff is victim of a tort rather than a fraud arising from direct dealings is almost an impossible burden of proof, *Petition of Charles Zubik & Sons*, (3 Cir., 1967) 384 F.2d 267, 273. What would have occurred had Olson Towboat admitted the *alter ego* allegation was never reached because Olson Towboat denied *alter ego* by proving in the Olson affidavit that the two corporations were separate (Tr. 26).

Plaintiff's allegation of *alter ego* was as much a claim of a fact as distinguished from an admission of fact as was the *alter ego* (and fraudulent transfer) allegation made by plaintiff in *Swift & Company Packers* v. *Compagnia Del Caribe*, (1950) 399 U.S. 684. In that case a vessel which was owned by Transmaritima at the commencement of a voyage was found transferred and owned by Del Caribe when she was attached in the Panama Canal Zone. Validity of the attachment depended upon plaintiff either proving that Del Caribe was the *alter ego* of Transmaritima or that the vessel had been fraudulently transferred. Defendants had denied both allegations. The Supreme Court granted a new hearing to plaintiff to permit it to prove, if it could, its *alter ego* (or fraudulent transfer) allegations. Had these allegations been accepted as fact the lower court could not have dissolved the writ as it did. In the case at bar the only one endeavoring to blow both hot and cold is Olson Towboat in contending that plaintiff had knowledge of a fact which Olson Towboat proved to be non-existing.

The very cases cited by Olson Towboat establish our point. In *United States* v. *Buffalo Weaving Co.*, (S.D.N.Y., 1956) 155 F. Supp. 454 process was quashed only after the *alter ego* relationship of two corporations was litigated and established as a fact. The case of *Frank McCleary Cattle Co.* v. *Sewell*, (1957), 73 Nev. 279, 317 P.2d 957 was very much like *Swift & Company Packers* v. *Compagnia Del Caribe*, supra, in that an execution was permitted to

remain on property owned by a corporation other than the defendant because after hearing and upon proof an *alter ego* relationship was found to exist.

Oregon's "long arm", ORS 14.035 has nothing to do with this case.

There is no merit in the contention that because plaintiff might have acquired *personam* jurisdiction over Olson Towboat by serving that corporation in San Francisco under Oregon Revised Statute 14.035 that it had no right to employ the admiralty writ of foreign attachment to accomplish the same purpose.

The first reason is that sub-paragraph "(4)" to ORS 14.035 provides that nothing contained in the statute shall limit or affect the right to serve any person in any other manner now or hereafter provided by law.

The second reason is that the admiralty writ of foreign attachment is not effected by state law. *San Rafael Compania Naveira, S.A.* v. *American Smelt. & R. Co.*, (9 Cir., 1964) 327 F.2d 581; *Bjolstad* v. *Pac. Coast S.S. Co.*, (N.D. Calif., 1914) 221 F. 692. Permitting a state to tamper with maritime law in such a way as to destroy its harmony and uniformity is constitutionally forbidden. *Southern Pacific Co.* v. *Jensen.* (1917) 244 U.S. 206.

CONCLUSION

The order of the District Court in dissolving the writ of foreign attachment was clearly an unlawful exercise or an abuse of discretion and should be reversed because:

1. Olson Towboat was not corporately present in Oregon.

2. Due diligence was employed by plaintiff in its unsuccessful endeavor to find an agent for Olson Towboat in Oregon.

3. The *alter ego* allegation in plaintiff's complaint was a contention of fact and not an admission of fact.

4. Oregon's "long arm," ORS 14.035 has nothing to do with this case.

5. Any lack of a U. S. Marshal's "not found" certificate in his return or any "double negative" in the affidavit for attachment are technicalities to be either cured or ignored upon remand.

Respectfully submitted,

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GEORGE E. ROHDE, Chief Counsel
Oregon State Highway Commission
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WILLIAM F. WHITE, Special Assistant Counsel,
Attorneys for Appellant.

CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

William F. White,
Of Attorneys for Appellant

No. 22,234

IN THE

United States Court of Appeals
For the Ninth Circuit

ADELINE FRASCH, *Appellant,* vs. THOMAS C. WILSON and SALLY B. WILSON, *Appellees.*	

APPELLANT'S OPENING BRIEF

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PERNAU-WALSH PRINTING CO., SAN FRANCISCO

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No. 22,234

IN THE

United States Court of Appeals

For the Ninth Circuit

ADELINE FRASCH,

Appellant,

vs.

THOMAS C. WILSON and SALLY B. WILSON,

Appellees.

APPELLANT'S OPENING BRIEF

I. A STATEMENT OF THE PLEADINGS AND THE FACTS GIVING JURISDICTION TO THE DISTRICT COURT AND TO THIS COURT

In 1966 Thomas C. Wilson and Sally B. Wilson filed a petition in bankruptcy in the United States District Court, Central District of California. (R. 26) On November 29, 1966 John P. Stodd, trustee in bankruptcy for the Wilsons, applied to Robert B. Powell, referee in bankruptcy for the U.S. District Court, for an order requiring appellant Adeline Frasch to turn over to trustee Stodd a note and trust deed executed by R. A. Diedrich and V. J. Shrader payable to the bankrupts and given by the bankrupts to Mrs. Frasch as security for her loan to Thomas C. Wilson of $7,000.00. (R. 2; R. 14)

Without a hearing and in the absence of Mrs. Frasch and her attorney, the referee in bankruptcy, Robert B. Powell, decreed that he had summary jurisdiction to hear and decide Mrs. Frasch's rights to the note and trust deed which she held. (R. 7)

He continued the matter until February 1, 1967 and at that time took the matter under submission. He made a memorandum opinion on February 24, 1967 (R. 24), and findings of fact and conclusions of law and a turnover order on March 30, 1967. (R. 35)

A petition for review was then timely filed in the United States District Court, Central Division under Section 39(c) (11 U.S.C.A. 67-c) of the Bankruptcy Act. (R. 36)

An order affirming the referee's order was made by the District Court on the 21st day of July 1967 (R. 45); and a notice of appeal to this court was filed by appellant on August 11, 1967 under the provisions of the Bankruptcy Act Sections 24 and 25 (11 U.S.C.A. 47 and 48). (R. 47)

II. STATEMENT OF THE CASE

On August 6, 1964 R. A. Diedrich and V. J. Shrader gave Thomas C. Wilson and Sally B. Wilson a note for $9,742.61 secured by a trust deed. (R. 13)

On September 28, 1964 appellant Adeline Frasch loaned Thomas C. Wilson $7,000.00, and Thomas C. Wilson and Sally B. Wilson gave her the Diedrich and Shrader note and trust deed as collateral security

for Thomas C. Wilson's note for $7,000.00. (Referee's finding of fact III, R. 27)

The Diedrich and Shrader note and trust deed were thereby pledged to Adeline Frasch. (Referee's memorandum opinion, R. 24)

On March 26, 1966 the Wilsons were adjudicated bankrupt. (R. 27)

On November 29, 1966 John P. Stodd, trustee in bankruptcy for Thomas C. Wilson and Sally B. Wilson, applied to Robert B. Powell, referee in bankruptcy for the U. S. District Court, Central Division of California, for an order requiring Adeline Frasch to turn over to trustee Stodd the note and trust deed. (Trustee's application for Turnover order, R. 2)

On December 9, 1966 referee Robert B. Powell ordered Adeline Frasch to appear before him on December 20, 1966 to show cause why she should not be ordered to turn over the Diedrich and Shrader note and trust deed. He ordered her to file and serve an answer on trustee John P. Stodd's attorney, Gilbert Mueller, at least two days before the hearing. (Referee's Amended Order to show cause, R. 5)

The sheriff served this order on Mrs. Frasch at noon December 15, 1966. (Answer R. 10)

Because there was not enough time to prepare and serve and answer, Mrs. Frasch's attorney, Phillip Wagy, called Gilbert Mueller's office and asked for and obtained an unqualified agreement that the entire matter would be continued. (Answer, Affidavit of Phillip Wagy, R. 17)

The matter was thus continued by "telephonic request of respondent's attorney to February 1, 1967". (Referee's findings of fact, R. 26)

Relying on this continuance, neither Mrs. Frasch nor her attorney appeared at the hearing originally set for December 20, 1966. (R. 26) However, John P. Stodd, the trustee and Gilbert Mueller, his attorney, did. (R. 26)

In the absence of Mrs. Frasch and her attorney and without any hearing whatsoever, Mr. Stodd and Mr. Mueller obtained, and Robert B. Powell, the referee, signed an order decreeing that Mr. Powell, the referee, had summary jurisdiction to hear and to decide the rights of Mrs. Frasch to the note and trust deed which she had in her possession. (Referee's order for Continuance and in re summary jurisdiction, R. 7)

Believing that the order in re summary jurisdiction was made without due process, Mrs. Frasch did not ask for a review, but asked the referee to correct this error. (R. 11)

On February 1, 1967 and within the time set by the continuance Mrs. Frasch objected to the summary jurisdiction of the court and asserted her rights as a secured creditor. (Answer R. 9, Points and Authorities R. 20)

The referee made his memorandum opinion on February 24, 1967 (R. 24) and his findings of fact and conclusions of law on March 30, 1967 (R. 26) his conclusions of law being:

I.

Since no appeal has been taken within the time prescribed by law, from the Court's order of summary jurisdiction, said order is final, and this Court has summary jurisdiction over this matter.

II.

That the filing of a continuation statement by respondent was mandatory as required by Section 10102 (c) of the California Commercial Code in order to perfect her interest in the note and trust deed signed by R. A. Diedrich and V. J. Shrader which was collateral security for the note executed by bankrupt Thomas C. Wilson to respondent.

III.

This respondent is a general unsecured creditor of this bankrupt estate and its claim of lien against the subject note is null and void.

III. SUMMARY OF ARGUMENT

The question presented is whether or not the above conclusions of law are wrong. Mrs. Frasch says indeed they are, and presents her argument as summarized:

A.

The referee had no jurisdiction over the Diedrich and Shrader note in Mrs. Frasch's possession. His assumption of jurisdiction was without due process and void. Mrs. Frasch did not consent to his assump-

tion of such summary jurisdiction by not asking for review of this void order.

B.

The filing of a continuation statement by Mrs. Frasch was *not* required by Section 10102 (c) of the Commercial Code of the State of California in order to perfect her interest in the note and trust deed signed by R. A. Diedrich and V. J. Shrader and pledged to her by the bankrupts.

C.

Having a perfected interest in the note and trust deed Mrs. Frasch is a secured creditor and her lien against the pledged note and trust deed is good and valid, and the trustee is entitled to the note and trust deed only on payment to Mrs. Frasch of the debt secured by their pledge.

IV. ARGUMENT

A. THE REFEREE HAD NO JURISDICTION OVER THE DIEDRICH AND SHRADER NOTE AND TRUST DEED IN MRS. FRASCH'S POSSESSION. HIS ASSUMPTION OF JURISDICTION WAS WITHOUT DUE PROCESS AND VOID. MRS. FRASCH DID NOT CONSENT TO HIS ASSUMPTION OF SUMMARY JURISDICTION BY NOT ASKING FOR A REVIEW OF HIS VOID ORDER.

A-1. The referee had no jurisdiction over the Diedrich and Shrader note and trust deed in Mrs. Frasch's possession.

The Diedrich and Shrader note was in Mrs. Frasch's possession. (R. 2) As the court knows:

> "There is hardly any question of law better settled than that a court of bankruptcy has no juris-

diction without the consent of the adverse claimant to hear and adjudicate in a summary proceeding a controversy as to the title of or claims upon property held adversely to the bankrupt estate where such property came into the claimant's possession prior to the bankruptcy."

Vol. 2 Collier on Bankruptcy 14th Ed. page 491.

See:

Suhl v. Bumb, 348 F.2d 869.

"If the property is in the possession of the claimant, his claim is adverse whether he claims to hold an absolute title to such property or only asserts a lien upon it."

Collier, supra, page 498.

A pledgee in possession prior to bankruptcy is an adverse claimant subject only to a plenary suit to determine his interest.

Collier, supra, page 501;

Walker v. Commercial Bank of Little Rock (C.A. 8th 1954) 217 F.2d 677;

Southwestern Lumber Co. of N.J. v. Kerr (D.C. Texas) 29 Am. B. R. (NS) 404, 11 F.Supp. 253, aff'd (C.C.A. 5th Cir.) 78 F.2d 348, Cert. den. 296 U.S. 661, 56 S.Ct. 130, 80 L.Ed. 433;

Seeman v. Nat. Bank of Commerce (C.C.A. 5th 1940) 42 Am. B. R. (NS) 852, 112 F.2d 378.

The trustee cannot establish "constructive possession" of a chose in action represented by an indispensable instrument in the possession of the claimant.

Where a chose in action is represented by a physical document which has been delivered by the bankrupt before bankruptcy to an adverse claimant, summary proceedings are unavailing.

Matter of Republic Plumbing Supply Corp., 295 Fed. 573;

Southwestern Lumber Co. of N.J. v. Kerr (supra);

Seeman v. National Bank of Commerce (supra).

See:

2 Collier on Bankruptcy 14th Ed. pp. 488, 489, 323.05.

See *Pasadena Investment Co. v. Weaver,* 376 F.2d 175 at 178 where the court points out the distinction between a lien holder in possession and one not in possession.

A-2. The referee's assumption of jurisdiction was without due process and void.

It is true that in all proceedings to recover summarily the possession of property from the hands of third persons, a referee has preliminary jurisdiction to inquire into the nature of the defendant's possession and into any adverse claim so far as to see whether it is more than colorable.

Vol. 2 Collier on Bankruptcy 14th Edition 521.

But what did the referee do here? He did not make any inquiry into the nature of Mrs. Frasch's claim on December 20, 1966. He simply and arbitrarily de-

creed that he had summary jurisdiction to hear and decide this matter. (R. 7) He did this apparently on the basis that no answer or objection to the court's jurisdiction had been filed. (R. 7)

The only reason that no answer or objection to the court's jurisdiction had been filed is that Mr. Stodd, the trustee and Mr. Mueller, his attorney had agreed that Mrs. Frasch's attorney could have a continuance. (R. 17) The matter had been continued "by telephonic request of respondent's attorney to February 1, 1967." (Findings of fact and conclusions of law, R. 26)

Having been granted a continuance, naturally Mrs. Frasch and her attorney did not appear on December 20, 1966.

Having agreed to this continuance, Mr. Stodd and Mr. Mueller then obtained an order in the absence of Mrs. Frasch and her attorney on one of only two issues in the case, although both such issues were completely interlocking.

The only basis the trustee claims for jurisdiction is that Mrs. Frasch's claim is merely colorable because she did not file a continuation statement. But the issue of the requirement for filing a continuation statement was continued to February 1. Without deciding that issue, the court had no basis on which to make a finding that it had summary jurisdiction.

And yet the court decreed that it had summary jurisdiction without any hearing of any sort, and in the absence of Mrs. Frasch and her attorney induced by

the agreement of the trustee and his counsel that the matter would be continued.

It has been widely and wisely held that a judgment obtained in a manner preventing a party from having a fair opportunity to present his case is void and may be collaterally attacked.

49 C.J.S. 859 et seq.

Regardless of the means which brought about this miscarriage of justice and deprivation of fair play, there can be no doubt that the assumption of jurisdiction by the referee deprived Mrs. Frasch of a hearing and of due process, and such assumption of jurisdiction is void. "In all cases the claimant is entitled to be heard."

Collier, supra, page 522;
Bradley v. St. Louis Terminal Warehouse (C.A. 8th 1951) 189 F.2d 818;
In re Bacon, 210 Fed. 129;
In re Maki, 14 F.2d 626;
In re Rosser, 101 Fed. 562.

A-3. Since the referee's assumption of summary jurisdiction was void, Mrs. Frasch was not obliged to appeal it, and not requesting a review is not a consent to his void jurisdiction.

See

Bradley v. St. Louis Terminal Warehouse (supra).

Pasadena Investment Co. v. Weaver, 376 F.2d 175 cited by the Honorable Thurmond Clarke (R. 46) is good law but completely distinguishable from the case before him and before this Court.

In that case the Pasadena Investment Company did not object to the referee's assumption of jurisdiction. Mrs. Frasch was deprived of the opportunity to object; the ruling was made when she and her attorney were led to believe the matter was continued.

The *Pasadena* case discusses Rule 2(a) (7) of the Bankruptcy Act as amended 11 U.S.C.A. 11(a) (7) which says in part:

> ". . . and where in a controversy arising in a proceeding under this title an adverse party does not interpose objection to the summary jurisdiction of the court of bankruptcy, by answer or motion filed before the expiration of the time prescribed by law or rule of court or filed or extended by order of court for the filing of an answer to the petition, motion or other pleading to which he is adverse, he shall be deemed to have consented to such jurisdiction."

Mrs. Frasch filed her answer objecting to jurisdiction within the time fixed by order under the agreed continuance; but the court without allowing her to get in her answer or to be heard, made a finding that it had summary jurisdiction.

The trustee's position seems to be that you can agree to give the claimant's attorney an extension of time in which to answer, but then, you can settle one of the issues on the grounds he didn't answer on the date from which you gave him the continuance. This is like giving an attorney a ten day extension to answer a complaint and then taking a default on the day after the answer was originally due. It is far far from due process of law.

The *Pasadena* case does not discuss this issue of due process and the right to be heard; but that is the basis for Mrs. Frasch's asking this Court to hold the referee's assumption of jurisdiction void.

In the *Pasadena* case the appellant had a full three day hearing. Mrs. Frasch had none. Surely Rule 2(a)(7) was not intended, nor should it be interpreted to subvert the constitutional rights of litigants, or to make void proceedings valid.

B. FILING OF A CONTINUATION STATEMENT BY MRS. FRASCH WAS NOT REQUIRED BY SECTION 10102(c) OF THE COMMERCIAL CODE IN ORDER TO PERFECT HER INTEREST IN THE NOTE AND TRUST DEED SIGNED BY R. A. DIEDRICH AND V. J. SHRADER AND PLEDGED BY BANKRUPTS.

B-1. The transfer of the Diedrich and Shrader note and trust deed to Mrs. Frasch by the bankrupts met all the requirements of a valid pledge.

The referee admits this transfer was a pledge. (R. 24) The trustee and referee admit that the Diedrich and Shrader note and trust deed were received by Mrs. Frasch as security. (R. 2; R. 27)

> "A pledge of the Diedrich and Shrader note to Mrs. Frasch took place on September 28, 1964. It was governed by the law effective prior to the adoption of the Uniform Commercial Code in California, effective January 1, 1965. Although the new Commercial Code makes no changes in the requirements of a valid pledge, we will discuss the law as of September 28, 1964, and show that the transfer of the Diedrich and Shrader note to Mrs. Frasch was valid.

> This transfer had the essential elements of a pledge, which have been said to be: the existence of a debt or obligation, and the transfer of property to be held as security."
>
> 39 Cal. Jur. 2d 502.

See

Collier on Bankruptcy, No. 4, 14th Ed. 1686.

It was accomplished by the usual method of effectively transferring a chose in action.

> ". . . where a chose in action is represented by a written, such as a note, bill of exchange, . . . delivery of the instrument is effective."

1 Witkin, Summary of California Law 650;

Rest. Security §§ 1, 2;

Clark v. Western Feeding Company, 10 Cal. App. 2d 727, 52 P. 2d 991;

Reynolds v. Reynolds, 54 Cal. 2d 669, 355 P. 2d 481.

With Bills and Notes, as in the case of other instruments, the title of the transferor may be conveyed by an assignment in a separate instrument, on the instrument itself, or *by mere delivery.*

8 Cal. Jur. 2d 383;

Vance v. Gilbert, 178 Cal. 574, 174 P. 42;

Cassetta v. Baima, 106 Cal. App. 196, 288 P. 830.

So whether or not the Diedrich-Shrader note was endorsed, the physical transfer of it was enough to constitute a pledge. Neither a writing nor recordation is necessary to constitute a pledge.

1 Witkin, Summary of California Law 649.

An assignment of a beneficial interest under a trust deed may be recorded, but a recording is not essential to the completed transfer, and the assignment of a debt carries with it any mortgage or trust deed securing it.

33 Cal. Jur. 2d 674, 678.

B-2. The Uniform Commercial Code as adopted in California January 1, 1965, makes no changes in these requirements.

References to Code Sections hereafter are to the California Commercial Code.

The Code infers that where a security interest is perfected, it takes precedence over the rights of trustees in bankruptcy.

3 California Commercial Law, C.E.B. 97 et seq.

According to § 9301 U.C.C. Comment (1) "perfected" is derived from Bankruptcy Act § 60 (11 U.S.C. 96) in which the term perfected is used to describe a security interest in personal property which cannot be defeated in insolvency proceedings.

A security interest must first attach, under § 9204 (1) and meet the formalities of § 9203(1).

A security interest attaches under § 9204(1) when there is an agreement that it attaches, and value is given, and the debtor has rights in the collateral.

All of these elements are admitted by the pleadings and the findings of fact. (R. 2; R. 27) Mrs. Frasch gave value, $7,000.00. The bankrupts had rights in the notes and trust deed given them by Diedrich and Shrader, and they agreed that it attached by depositing the note and trust deed with Mrs. Frasch.

Under § 9203(1) the formal requisites are met under § 9203(1)(a) when the collateral is in the possession of the secured party. The collateral was in the possession of Mrs. Frasch. (R. 2)

Under § 9203(1)(a) no written security agreement is required for the enforceability of a security interest when the secured party takes possession of the collateral, as in the familiar pledge transaction.

3 California Commercial Law, C.E.B. 54.

B-3. To complete perfection of her interest in the pledged note and trust deed, Mrs. Frasch did not have to file a financing statement.

Section 9302 in pertinent part reads as follows:

> "§ 9302. When Filing Is Required to Perfect Security Interest; Security Interests to Which Filing Provisions of This Division Do Not Apply. (1) A financing statement must be filed to perfect all security interests except the following:
>
> (a) A security interest in possession of the secured party under Section 9305."

Section 9305 in pertinent part reads as follows:

> "When Possession by Secured Party Perfects Security Without Filing. A security interest in . . . goods, instruments, negotiable documents or chattel paper may be perfected by the secured party's taking possession of the collateral."

The California Commercial Code Comment under § 9305 states:

> "The Commercial Code retains the common law idea of perfecting a security interest by possession. Under this section a security interest can

> be perfected by transfer of possession when the collateral is goods, instruments, documents or chattel paper."

The Uniform Commercial Code under § 9305 Comment states:

> "As under the common law of pledge, no filing is required by this Article to perfect a security interest where the secured party has possession of the collateral."

Therefore, since Mrs. Rasch had possession of the Diedrich and Shrader note and held it as security in the form of a pledge, it was not necessary for her to file a financing statement in order to perfect her interest.

Despite the abundant clarity of these sections, the trustee in bankruptcy has taken the position that:

> "Said transfer of said note and deed of trust by the bankrupt to respondent for collateral security constitutes a secured transaction as defined in the California Commercial Code and required the filing of a continuation statement pursuant to Section 10102(c) of the California Commercial Code, which continuation was not filed." (R. 2)

But what does Section 10102(c) say?

In pertinent part it states:

> "Provision for Transition: Continuation Statement. . . . the perfection of a security interest . . . (c) which was perfected when this act takes effect without any filing or recording, but with respect to which a financing statement is required to be filed in order for it to be perfected under

> this code, continues until and will lapse 12 months after this code takes effect; unless, in each case a continuation statement is filed by the secured party within 12 months before the perfection of the security interest would otherwise lapse."

So the section makes the requirement of filing a continuation statement entirely dependent on the security interest being one

> "with respect to which a financing statement is required to be filed in order for it to be perfected under this act . . ."

As is obvious from the sections of the act already quoted, a pledge of a note and trust deed does not require the filing of a financing statement under the act.

Since no such filing is required, § 10102(c) has no application to the facts of this case.

C. HAVING A PERFECTED INTEREST IN THE NOTE AND TRUST DEED, MRS. FRASCH IS A SECURED CREDITOR AND HER LIEN AGAINST THE PLEDGED NOTE AND TRUST DEED IS GOOD AND VALID, AND THE TRUSTEE IS NOT ENTITLED TO THE NOTE AND TRUST DEED UNTIL HE HAS PAID THE DEBT SECURED BY THEIR PLEDGE.

C-1. The appointment of a receiver or trustee in bankruptcy does not deprive the pledgee of his security in accordance with the pledge; its only effect is to inform the receiver or trustee of the amount he must pay in order to redeem the pledged property, and to acquaint him with the amount the pledgee might be

entitled to receive, if anything, out of the general assets, should the security be insufficient to pay the amount due.

International Baking Corp. v. Lynch, 269 Fed. 242.

Where there is a valid pledge, the pledgor's trustee in bankruptcy succeeds to his power of redemption and is entitled to restoration of the pledged property only upon payment of the debt.

Matter of Rogers, 20 Fed. Supp. 120;
M. M. Landy, Inc. v. Nicholas, 221 F.2d 923.

Dated, Bakersfield, California,
January 4, 1968.

Respectfully submitted,
Bradley, Wagy, Bunker, Hislop & Gibbons,
By Albert M. Leddy,
Attorneys for Appellant.

Certificate of Counsel

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Albert M. Leddy,
Attorney for Appellant.

No. 22,234

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ADELINE FRASCH,

Appellant,

vs.

THOMAS C. WILSON and SALLY B. WILSON,

Appellees.

APPELLEES' BRIEF.

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IN THE

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FOR THE NINTH CIRCUIT

ADELINE FRASCH,

Appellant,

vs.

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Appellees.

APPELLEES' BRIEF.

I.
STATEMENT OF THE CASE.

Appellees disagree with parts of Appellant's Statement of the Case as hereinafter set forth.

Gilbert N. Mueller, the attorney for Mr. John P. Stodd, Trustee, received no call or communication whatsoever from Mr. Phillip Wagy, Mrs. Frasch's attorney, with respect to a continuance on December 19, 1966 [R. 17], or at any other time. If anyone was called by Mr. Wagy it was Mr. Stodd. The first time Mr. Mueller was made aware of any request for continuance was at the date of the hearing on December 20, 1966, when the Court informed him of the call to the Court's Clerk.

Appellant's attorney was advised of the Court's Order re Continuance and Summary Jusridiction by a copy mailed to him and to Appellant on December 20, 1966 [R. 7].

Mr. Wagy did not call or communicate with Mr. Mueller in any manner whatsoever with regard to the Court's Order, or advise Mr. Mueller of any objections until January 30, 1967 when he received the Answer to Amended Order to Show Cause [R. 9]. This was a time span of approximately forty-one (41) days between the making of the Order and the filing of the Answer.

On February 1, 1967 the question of Summary Jurisdiction and the case on its merits were heard, argued, and considered by the Court and the Court filed its appropriate Memorandum Opinion on February 24, 1967 [R. 24] and its Findings of Fact and Conclusions of Law on March 30, 1967 [R. 26]. The Notice of Entry of Order was filed March 30, 1967, [R. 29] and Appellant filed her Petition for Review on April 7, 1967 [R. 36] which was approximately seventy-six (76) days after mailing notice to Appellant and her attorney of the Court's Order for Summary Jurisdiction on December 20, 1966 [R. 7].

The Trustee had at all times been collecting all payments on the note executed by R. A. Diedrich and V. J. Shrader [R. 2].

The note and trust deed executed by R. A. Diedrich and V. J. Shrader was made payable to bankrupts Thomas C. Wilson and Sally B. Wilson, husband and wife as joint tenants [Exhibits attached to Appellant's Answer to Amended Order to Show Cause, R. 9].

The promissory note to Appellant Mrs. Frasch in the amount of $7,000.00, which deposits with Mrs. Frasch as collateral security the above note and trust deed from Diedrich and Shrader, was executed only by Mr. Thomas C. Wilson and not by Sally B. Wilson, nor

as her agent, and was not recorded [Exhibit attached to Appellant's Answer to Amended Order to Show Cause, R. 9].

II.

SUMMARY OF ARGUMENT.

A.

The Referee had proper and effective jurisdiction over the Diedrich and Shrader note and trust deed. Appellant's failure to communicate with the Trustee or his attorney and failure to seek a review of the Referee's Order for Continuance and in Re Summary Jurisdiction within the time required by law was a consent to Summary Jurisdiction.

B.

The filing of a continuation statement by Mrs. Frasch was required by Section 10102(c) of the Commercial Code of the State of California in order to perfect her interest in the note and trust deed signed by R. A. Diedrich and V. J. Shrader.

C.

Mrs. Frasch did not have a perfected interest in the note and trust deed of Diedrich and Shrader, and was not a secured creditor.

D.

Thomas C. Wilson as a joint tenant in ownership of the Diedrich and Shrader note and trust deed with Sally B. Wilson, had the power only to pledge his separate estate in said property to Mrs. Frasch and thereafter the joint tenancy terminated and Sally B. Wilson and Mrs. Adeline Frasch became owners as tenants in common of said Diedrich and Shrader note and trust deed.

III.
ARGUMENT.

A. The Referee Had Proper and Effective Jurisdiction Over the Diedrich and Shrader Note and Trust Deed. Appellant's Failure to Communicate With the Trustee or His Attorney and Failure to Seek a Review of the Referee's Order for Continuance and in Re Summary Jurisdiction Within the Time Required by Law Was a Consent to Summary Jurisdiction.

1. The Referee Had Proper and Effective Jurisdiction Over the Diedrich and Shrader Note and Trust Deed.

The Trustee had at all times been making collections on the Diedrich and Shrader note and trust deed, and the proceeds therefrom were in his possession, and such proceeds in his possession were no longer in the nature of a perfected security interest.

Section 9306 of the California Commercial Code in its pertinent parts states:

> "(3) The security interest in proceeds is a continuously perfected security interest if the interest in the original collateral was perfected but it ceases to be a perfected security interest and becomes unperfected ten (10) days after receipt of the proceeds by the debtor unless
>
> (a) A filed financing statement covering the original collateral also covers proceeds; or
>
> (b) The security interest in the proceeds is perfected before the expiration of the ten (10) day period."

"It is entirely immaterial who was ultimately entitled to the money thus collected by the receiver, . . . There can be no doubt, therefore that the Court in the bankruptcy proceeding had exclusive jurisdiction to determine the ownership in the property thus in the custody of its receiver."

Murphy v. Hoffman Co., 211 U.S. 562, 21 Am. B. R. 487, 29 S. Ct. 154, 53 L. Ed. 327.

Constructive possession in the Trustee occurs where the property is held by one who makes a claim which is not substantial and is colorable only.

See Collier on Bankruptcy, No. 4, 14*th* Ed. 483.

Where the intangible consists of a chose in action, such a debt owed the bankrupt as a Contract Claim, such intangible may be said to be in the constructive possession of the bankruptcy Court so as to enable the Court summarily to determine the rights of various claimants to the chose in action, if the bankrupt remained the legal owner up to the time of the filing of the petition, as long as there has not been an outright and complete assignment of the chose in action to a third party prior to bankruptcy, as distinguished from a mere encumbrance of it.

See Collier on Bankruptcy, No. 4, 14*th* Ed. 487.

Since Sally B. Wilson did not execute the note to Mrs. Frasch, and did not consent to or sign any agreement of deposit for collateral security of the Diedrich and Shrader note the claim of Appellant is colorable only.

"An instrument payable to the order of two or more persons.

(b) If not in the alternative is payable to all of them and may be negotiated, discharged or enforced only by all of them"

California Commercial Code, Section 3116.

"(1) No person is liable on an instrument unless his signature appears thereon"

California Commercial Code, Section 3401.

2. Appellant's Failure to Communicate With the Trustee or His Attorney and Failure to Seek a Review of the Referee's Order for Continuance and in Re Summary Jurisdiction Within the Time Required by Law Was a Consent to Summary Jurisdiction.

For rules governing review of final Orders see Section 39(c) Bankruptcy Act.

"It is well settled that in all cases where a party is entitled to the determination of his rights in a plenary action, he may nevertheless consent to the exercise of summary jurisdiction by the Bankruptcy Court and in that manner have his rights adjudicated."

Collier on Bankruptcy, No. 4, 14*th* Ed. 530.

Consent may be (1) express; (2) by waiver through failure to raise the proper objection, or (3) implied from any act indicating a willingness on the part of the party that his claim or interest be determined Summarily by the Bankruptcy Court.

See Collier on Bankruptcy, No. 4, 14*th* Ed. 534.

B. The Filing of a Continuation Statement by Mrs. Frasch Was Required by Section 10102 (c) of the Commercial Code of the State of California in Order to Perfect Her Interest in the Note and Trust Deed Signed by R. A. Diedrich and V. J. Shrader.

Sally B. Wilson did not sign any pledge or deposit of collateral security of the Diedrich and Shrader note and trust deed to Mrs. Frasch, nor was there any evidence or showing that Mr. Wilson acted as agent for Mrs. Wilson. The Diedrich and Shrader note and trust deed were held by Mr. and Mrs. Wilson as joint tenants which is apparent on the face of the instrument.

See

Section 3401 California Commercial Code *re* subject of signature, *Id.*

"It is essential to the existence of a contract that there should be:

1. Parties capable of contracting;
2. Their consent;
3. A lawful object; and,
4. A sufficient consideration."

Section 1550 California Civil Code.

See

Section 3116 California Commercial Code as to instruments payable to two or more persons, *Id.*

"(3) 'Agreement' means the bargain of the parties in fact as found in their language or by implication from other circumstances including course of dealing or usage of trade or course of per-

formance as provided in this code (Sections 1205 and 2208).

Whether an agreement has legal consequences is determined by the provisions of this code, if applicable; otherwise by the law of contracts (Section 1103)"

Section 1201 California Commercial Code.

"(29) Party, as distinct from 'third party', means a person who has engaged in a transaction or made an agreement within this division."

Section 1201 California Commercial Code.

Section 9204 of the California Commercial Code provides that a security interest cannot attach until there is an agreement that it attach and value is given and the debtor has rights in the collateral.

Since Mrs. Wilson was not a party to the transaction between Mr. Wilson and Mrs. Frasch, and did not give her consent, Mr. Wilson was not capable of contracting for Mrs. Wilson so there were not parties capable of contracting. There consequently was no "agreement" and no right in Mr. Wilson to contract away the collateral which was an instrument payable to two or more persons. Therefore the requirements under Section 9204 of the California Commercial Code were not complied with and the security interest could not attach and if it could not attach then it could not be perfected under Section 9203 of the California Commercial Code by possession or otherwise.

C. Mrs. Frasch Did Not Have a Perfected Interest in the Note and Trust Deed of Diedrich and Shrader, and Was Not a Secured Creditor.

Since Mrs. Frasch did not have a perfected interest in the note and trust deed, she is not a secured creditor.

> "Where persons assuming to pledge property had no title to the property, nor authority from the owner to pledge, or transfer it, there was no legal pledge."
>
> *McLean v. Mooser,* 210 Pac. 827, 59 Cal. App. 345.

D. Thomas C. Wilson as a Joint Tenant in Ownership of the Diedrich and Shrader Note and Trust Deed With Sally B. Wilson, Had the Power Only to Pledge His Separate Estate in Said Property to Mrs. Frasch and Thereafter the Joint Tenancy Terminated and Sally B. Wilson and Mrs. Adeline Frasch Became Owners as Tenants in Common of Said Diedrich and Shrader Note and Trust Deed.

> "One joint tenant or tenant in common cannot bind his cotenant by any contract which he may make relating to the common property."
>
> *Carbine v. Meyer,* 272 P. 2d 849, 126 Cal. App. 2d 386;
>
> *Eagle Oil and Refining Co. v. James,* 126 P. 2d 880, 52 Cal. App. 2d 669;
>
> *Oberwise v. Poulos,* 12 P. 2d 156, 124 Cal. App. 247.
>
> "Joint tenant, transferring interest to another, severs tenancy"
>
> *Smith v. Lombard,* 258 Pac. 55, 201 Cal. 518.

"A joint tenancy may convey his interest to a stranger and the stranger becomes a tenant in common with the other joint tenants."

Carbine v. Meyer, 272 P. 2d 849, 126 Cal. App. 2d 386.

"To extinguish promissory note held in joint tenancy, eiter in part or in full, consent of both obligees must be obtained."

Lovetro v. Steers, 44 Cal. Rptr. 604, 234 Cal. App. 2d 461.

Dated, Santa Ana, California, March 18, 1968.

Respectfully submitted,

Gilbert N. Mueller,
Attorney for Appellees.

Certificate.

I certify that in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

GILBERT N. MUELLER

No. 22,234

IN THE

United States Court of Appeals
For the Ninth Circuit

ADELINE FRASCH, *Appellant*, vs. THOMAS C. WILSON and SALLY B. WILSON, *Appellees.*	

APPELLANT'S REPLY BRIEF

BRADLEY, WAGY, BUNKER, HISLOP & GIBBONS,
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Bakersfield, California 93301,
Attorneys for Appellant.

PERNAU-WALSH PRINTING CO., SAN FRANCISCO

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No. 22,234

IN THE

United States Court of Appeals

For the Ninth Circuit

ADELINE FRASCH, *Appellant*, vs. THOMAS C. WILSON and SALLY B. WILSON, *Appellees.*	

APPELLANT'S REPLY BRIEF

I. STATEMENT OF THE CASE

Paragraph 2 on page one of appellees' brief is not supported by the record.

The statement in paragraph 2 on page two of their brief, that "On February 1, 1967 the question of Summary Jurisdiction and the case on its merits were heard, argued and considered by the Court, . . ." is not true. The matter was submitted on the pleadings, which included our objection to the summary jurisdiction of the court. The referee has taken the position that the matter was submitted, and Mr. Mueller, attorney for appellees, took that position in the District Court. We have requested this court to complete

the record by ordering the inclusion of the transcripts of the proceedings before Robert B. Powell, referee, on December 20, 1966, and February 1, 1967, in order to show what actually happened.

The matter was submitted on pleadings which included the statement that Mr. Wilson acted for his wife in depositing the note and trust deed with Mrs. Frasch. (R. 10.)

II. SUMMARY OF ARGUMENT

A.

Appellees have failed to answer appellant's argument that "The referee had no jurisdiction over the Diedrich and Shrader note in Mrs. Frasch's possession. His assumption of jurisdiction was without due process and void. Mrs. Frasch did not consent to his assumption of jurisdiction by not asking for review of this void order."

B.

Appellees have failed to answer appellant's argument that the filing of a continuation statement was not required by Section 10102(c) of the Commercial Code of the State of California in order to perfect her interest in the note and trust deed signed by R. A. Diedrich and V. J. Shrader and pledged by the bankrupts.

C.

Appellees have answered appellant's argument that Mrs. Frasch is a secured creditor by assuming a set of

facts not supported by the record, assuming incorrectly that the burden is on appellant to establish the lack of summary jurisdiction of the bankruptcy court, ignoring their pleadings and the findings of fact and conclusions of law, and ignoring the fact that the referee assumed summary jurisdiction without any hearing whatsoever.

III. ARGUMENT

A.

APPELLEES HAVE FAILED TO ANSWER APPELLANT'S ARGUMENT THAT THE REFEREE HAD NO JURISDICTION OVER THE DIEDRICH AND SHRADER NOTE IN MRS. FRASCH'S POSSESSION.

Appellees first direct the court's attention to the proceeds of the note in the hands of the Trustee at the time he requested the turnover order for the note. Proceeds of the note in the hands of the trustee at the time of the turnover order were never an issue in this case. (R. 2, 3.)

Appellees next cite Collier on Bankruptcy No. 4, 14th Ed. 487, and overlook, do not discuss and do not distinguish the cases cited by appellant in her brief on page 8.

Appellees then grandly ignore the whole issue of due process of law. They neither explain nor excuse their actions of December 20, 1966, which deprived Mrs. Frasch of a fair hearing. They do not answer the argument that a ruling made in the absence of a fair hearing is void.

They then abandon the whole of their attack that culminated in their preparation of "suitable findings of fact and conclusions of law" (R. 24), and like Napoleon fleeing Moscow, leave behind them an untenable shell. Their finding of fact that the order ruling that "this Court has summary jurisdiction to hear and decide this matter" was served on appellant on December 20, 1966 (R. 27), is abandoned in their flight to some imaginary hearing in which there was no evidence that Mrs. Wilson consented to her husband's depositing the note and trust deed as security with Mrs. Frasch. Appellees have fallen from unwitting misrepresentation of the law to disingenuous misrepresentation of the facts. In truth, there was no hearing on December 20, 1966. (R. 26.)

B.

APPELLEES HAVE FAILED TO ANSWER APPELLANT'S ARGUMENT THAT THE FILING OF A CONTINUATION STATEMENT WAS NOT REQUIRED BY SECTION 10102(c) OF THE COMMERCIAL CODE OF THE STATE OF CALIFORNIA IN ORDER TO PERFECT HER INTEREST IN THE NOTE AND TRUST DEED SIGNED BY R. A. DIEDRICH AND V. J. SHRADER AND PLEDGED BY THE BANKRUPTS.

Having now, more than a year after appellant first filed her points and authorities, discovered that Section 10102(c) of the California Commercial Code does *not* require filing of a continuation statement in order to perfect Mrs. Frasch's interest "in the note and trust deed signed by R. A. Diedrich and V. J. Shrader which was collateral security for the note

executed by bankrupt Thomas C. Wilson, . . ." (Conclusion of Law II, R. 27), appellees seek to abandon their conclusion of law and claim that there was no collateral security.

Here appellees fall back on the main theme of their brief. Mrs. Wilson was not shown to have consented to Mr. Wilson's actions. Mrs. Wilson was not a party to the transaction between Mr. Wilson and Mrs. Frasch. Their new position, like their old one, is untenable for several reasons.

C.

APPELLEES HAVE ANSWERED APPELLANT'S ARGUMENT THAT MRS. FRASCH IS A SECURED CREDITOR BY ASSUMING A SET OF FACTS NOT SUPPORTED BY THE RECORD, ASSUMING INCORRECTLY THAT THE BURDEN IS ON APPELLANT TO ESTABLISH THE LACK OF SUMMARY JURISDICTION OF THE BANKRUPTCY COURT, IGNORING THEIR PLEADINGS AND THE FINDINGS OF FACT AND CONCLUSIONS OF LAW, AND IGNORING THE FACT THAT THE REFEREE ASSUMED SUMMARY JURISDICTION WITHOUT ANY HEARING WHATSOEVER.

1. No evidence was submitted on which the bankruptcy court could find summary jurisdiction on December 20, 1966. The burden of proof is, first of all, on the trustee to establish the summary jurisdiction of the court.

> 2 Collier on Bankruptcy 14th Ed. p. 563;
> *Bradley v. St. Louis Terminal Warehouse Co.*, 189 F.2d 818;
> *Kelso v. MacLaren*, 122 F.2d 867.

2. Contrary to appellees' statement of facts, on February 1, 1967, the matter was submitted on the pleadings; therefore, the pleadings were presumed to be true.

6 Moore's Federal Practice 2144.

These pleadings included the appellant's objection to a summary jurisdiction and a statement that Thomas C. Wilson acted as agent for his wife in pledging the note and trust deed. (R. 10.)

Appellees rely on exhibits attached to the pleadings (page 3, Appellees' Brief) in order to raise this new issue, but decline to abide by their former acquiescence in submitting the matter to Referee Robert B. Powell on the pleadings when it came to the facts in the pleadings.

Raising new issues by referring to part of the pleadings on which the matter was submitted and then reneging on the submission as to other matters is almost as bad as agreeing to give an attorney a continuance and then getting a ruling on an issue in his absence.

3. Appellees are attempting to raise a new issue for the first time on appeal. They raised no such issue in their application. (R. 2.) They prepared no finding of fact or conclusion of law on this issue. Therefore, there is no basis on which they can raise the new issue.

2 Collier on Bankruptcy 14th Ed. p. 964;
Matter of Ben Weiss Co., 271 F.2d 234;
In re Linda Coal & Supply Co., 255 F.2d 653.

4. Finally, appellees fatally ignore the fact that their conduct prevented Mrs. Frasch from having a fair hearing before the order assuming jurisdiction was issued; and, therefore, such order and such assumption of jurisdiction was void.

Dated, Bakersfield, California,
March 29, 1968.

Respectfully submitted,
BRADLEY, WAGY, BUNKER, HISLOP & GIBBONS,
By ALBERT M. LEDDY,
Attorneys for Appellant.

CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

ALBERT M. LEDDY,
Attorney for Appellant.

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PHILIP J. KENNEY,

Appellant,

vs.

AMERICAN CAN COMPANY,
a corporation,

Appellee

No. 22,236

PETITION FOR REVIEW

APPELLANT'S APPENDIX

Appeal from the United States District Court

for the District of Oregon

HONORABLE GUS J. SOLOMON, Judge

Philip J. Kenney, Appellant
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UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PHILIP J. KENNEY, Appellant, vs. AMERICAN CAN COMPANY, a corporation, Appellee	)	No. 22,236 PETITION FOR REVIEW

The appellant petitions this court for a rehearing because of his inexperience, and while acting without benefit of counsel, has in his opinion, caused this court to misapprehend the undisputable facts that would enable this court to reverse the judgment against him from the court below.

It is the opinion of the appellant that if this court had been informed that appellant's trial was held without prior notice of such, but at the time when appellant appeared upon notice for a hearing on the motion for summary judgment and dismissal. This is not in criticism of the court below, but rather in the opinion of the appellant, the court below after having been informed by the plaintiff that he was unprepared for a trial, did the only just thing possible; dismiss the case with prejudice, which would open the way for the appellate court to delve as deeply as need be without placing the appellant (a lay person) in a position to reflect adversely on the decision of the court below.

The appellant, having reviewed his case in retrospect, can now cite those facts and law which will clearly confirm his complaint, that this court will have just cause to reconsider its finding. The appellant lists the following facts and law which can be verified by the record, and are absolute:

1. The appellee would have to prove that appellant did not disclose the use of an adhesive.

2. It would also have to establish its claim (Appellee's Brief, p. 23) that appellant disclosed only a two part tear strip.

3. Appellee can absolutely do neither as a matter of law for the following reasons: (a) Appellee does not deny, but admits, appellant did disclose the idea of adhering directly to cans - a strip. (See Appellee's Brief, pp. 20-21.) (b) Appellee's allegation that appellant disclosed only a two part tear strip constructure (Appellee's Brief, p. 23) is estopped by law because of its earlier evaluation that has been validated by the appellee's own actions. Said evaluation is cited in a letter dated October 26, 1955 (see R-50) from a Mr. George Reiber, an attorney employee of the appellee, wherein he says: *The fact that the tearing or opening strip which you suggested*...and validated by the appellee's failure in its letter of January 9, 1956 (see R 52-53) to designate or give any other interpretation for what was meant by opening strip. (c) The bare fact that appellee is adhering directly to cans a strip, as was suggested by the appellant (irregardless whether it is singular or plural), constitutes an appropriation which appellee was not authorized to use by appellant.

(d) The appellee did not require a formal agreement to be signed in connection with the August 1955 disclosure but did through implicity, by identifying the two submissions together as *substantially the same*, as stated in the January 9, 1956 (see R 52-53) letter from appellee, agreed to compensate for anything disclosed and used as cited in paragraph G of the formal agreement. Therefore, the appellee cannot now evoke any of the stipulations of the formal agreement in defense of its appropriation. (e) The fact that appellee is obligated to pay for anyting disclosed to it was admitted by the appellee upon questioning by the court at the hearing of the appeal. (f) It becomes evident that appellee stands in breach of such agreement and is obligated by law to make such amends as appropriate.

The fact that this court has grounds upon which to base its action for reconciling its finding and reversing the judgment from the court below, cannot be disputed. And, with due consideration of this court and in behalf of those (my family) who have so gallantly sacrificed for this action, this appendix is respectfully submitted.

Philip J. Kenney

Philip J. Kenney, Appellant,
submitting in Propria Persona

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

FILED

NOV 14 1967

WM. B. LUCK, CLERK

PHILIP J. KENNEY,	)	
Appellant	)	
vs.	)	
AMERICAN CAN COMPANY, a corporation,	)	
Appellee	)	

No. 22,236

APPELLANT'S BRIEF

Appeal from the United States District

Court for the District of Oregon,

HONORABLE GUS J. SOLOMAN, JUDGE

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UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PHILIP J. KENNEY, Appellant	)	No. 22,236
vs.	)	JURISDICTIONAL STATEMENT
AMERICAN CAN COMPANY, a corporation, Appellee	)	

The jurisdiction of the District Court was based upon diversity of citizenship and 28 U.S.C.A., Sec. 1332. The complaint alleges a controversy exceeding $10,000 between plaintiff, a citizen of Oregon and the defendant, a corporation incorporated under the laws of the State of New Jersey, having its principle place of business in a state other than the State of Oregon, and authorized to do business in Oregon.

APPELLANT'S REFERENCE CITATIONS

1. McEven vs. Kelly-Koett Mfg., D.C.E.D. Ky., 34f. Supp. 351, 2"

2. Hamilton National Bank vs. Belt, 210 F. 2d 962, 968. 6"

3. Booth vs. Stutz Motor Car Co., 56 F. 2d 962, 968. 1"

4. Alexander Milburn Co. vs. Davis-Bournoville, 270 U.S. 390 (1926)

5. Grepke vs. General Electric Co., 126 U.S. P.Q. 93 (7th Cir. 1960)

6. Minnesota Mining & Mfg. Co. vs. Technical Tape Co. (123 U.S. P.Q. 96 N.Y. Sup. Ct. 1959)

7. Charlie Chaplan vs. Charles Amador (18 Trade Mark Reporter 541)

8. Ed Sullivan vs. Edward Sullivan Radio and Television dealer (110 U.S. P.Q. 106)

9. Franke, et. al., (Q-W Laboratories vs. Wiltschek et. al. 209 F. 2d 493 (99 U.S. P.Q. 431)

10. 209 F. 2d 493, 395 (99 U.S. P.Q. 431, 433).

11. Smith, et. al. vs. Dravo Corp., 208 F. 2d 388 (99 U.S. P.Q. 384).

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IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PHILIP J. KENNEY Appellant vs. AMERICAN CAN COMPANY, a corporation Appellee	)	No. 22,236 APPELLANT'S BRIEF

The appellant offers this brief in support of his appealed civil action.

It should be noted that the appellant (a tradesman) is not representing himself by choice but through necessity, having tried a number of times to secure counsel, but to no avail. It now has become the opinion of the appellant that this inability stems from a disagreement between the appellant and his originally retained counsel over a proposed settlement of his grievance. The reasons will be obvious further on.

The appellant realizes that he has created an unusual situation by attempting to act as his own counsel. However, this does not change in any way the fact that the appellee has misappropriated the appellant's

personal property, which has resulted in breaching a confidential and/or contractual relationship between the parties. These relationships became implicit by the appellee's act of identifying, in a letter of determination dated January 9, 1956 (Transcript of Record, p. 12), a previously rejected disclosure of August 1955 with a later accepted disclosure of November 1955 as being "Substantially the same". Thus, the appellant was granted the right to expect compensation, if used in a substantial manner as provided for in paragraph (G) of the Formal Agreement, Form 2538 (Transcript of Record, p. 17), wherein it says:

> "in case you decide to use my idea substantially as disclosed to you, negotiate with me for the right to use it upon such written terms as may be mutually agreed upon." (Transcript of Record, p. 18)

The appellee owed a duty of secrecy to the appellant prior to consummation of any agreement. Thus, the appellee incurred the aforementioned breach of confidence. The appellee's act of breaching the said relationships came about when appellee manufactured in substantial amounts for commercial purposes, cans utilizing aluminum foil strips adhered directly to the sides of can to facilitate an easy opening seal. (See exhibits.) This was disclosed to the appellee in the August 1955 disclosure. This is better put in the letter of September 22, 1965 (Transcript of Record, pp. 68A-69) from (the then) legal counsel of the appellant to the appellee's attorney employee stating without reservation that the appellee had misappropriated the appellant's property. This accusation brought an immediate reply and an offer to resolve this matter in a letter dated October 5, 1965 (Transcript of Record, pp. 69-70). The offer was accepted and a meeting resulted on the morning of December 1, 1965 wherein the possibility of having the appellee take a license on

the appellant patent 3,096,905 to settle the appellant's grievance was seriously explored. (See letter of January 6, 1966, Transcript of Record, p. 71.) Herein tacit agreement with appellant's grievance is evident.

The proposition made to appellant was unacceptable. It conisted of an offer to license the appellant's patent 3,096,905 and for a general release of any claims the appellant had against the appellee, in return for a small consideration and possible royalties if the patent was used. Appellant's refusal, on the ground that it was rediculous, resulted in a heated argument and termination of the contingency agreement between the appellant and his counsel. In view of the directness in the letter of September 22, 1965, as mentioned above, why should the appellant's counsel expect him to give such concessions as licensing his patent 3,096,905, and giving the appellee a general release? Especially, when counsel knew that the supposed development that generated interest in the appellant's patent, as was declared in the letter of October 5, 1965, was unsuccessful and apparently abandoned prior to the appellee's offer of December 1, 1965. (It should be known that the appellant knew nothing of the letter of September 22, 1965, nor the letter of October 5, 1965, until receipt thereof in the appellant's copy of the Pretrial Order.) The appellant's effort to find out what happened at the December 1, 1965 meeting between the appellee's attorney employee and the appellant's (then) counsel was promptly objected to by the opposing counsel on the grounds that it would be a breach of the professional code of ethics. Appellant was attempting to determine by questioning at the trial, what took place to bring about this change of attitude as can be seen by comparing the letter of September 22, 1965 with the attitude shown in the letter

of December 15, 1965. (Transcript of Record, p. 70) The question of breach of professional code of ethics appears to be both rediculous and questionable. After all, the witness was under contract to the appellant at the alleged time of the meeting and any information concerning the meeting belongs to and should become the property of his client. If the appellee has nothing to hide as the appellant was admonished at the taking of his deposition (See Deposition, p. 2, line 19) why then, does the appellee object to such questioning. This attitude is not consistant with that which was told to appellant concerning asking questions (Appellant Deposition, p. 2-3). Also, if it is true that the appellee has nothing to hide and only wants to bring out the facts and relevant material, why then did the appellee present to the appellant four patents the afternoon before the day of the taking of the deposition and then question him in a leading manner in the highly technical language of the patents, when it was known that the appellant never completed grade school and was acting without benefit of counsel. Why was this material introduced in the first place? IT IS IRRELEVANT TO THE CASE BECAUSE by no stretch of the imagination can any rights be construed to do so, this is not a patent issue! Certainly, the appellee can claim no rights under the formal agreement because the appellee waived any rights by it's implied agreement and no rights were reserved. The lack of interest in 1955 was based on the "<u>unwarrented cost</u>" at the time.

The appellant again called the appellee's attention to his keyless type can opener on October 14, 1962, but without submitting again. Then, a little over two <u>months</u> (the "two <u>year</u>" in the Deposition is in error) later, on December 20, 1962, the appellee filed for patent that

did issue under No. 3,186,581. This contained the adhering of an aluminum strip direct to the can body and top acting as an easy opener and seal, as was suggested in the August 1955 disclosure of the appellant's.

The appellee alleges that the appellee's acts of patenting and manufacturing commercially cans utilizing the principle of adhering an aluminum foil strip, or in fact any material to cans to facilitate a seal or easy opener, (See appellant's exhibits) and which was disclosed to the appellee in the August 1955 disclosure and which was not authorized to use, breached a contractual relationship and consequently a duty of confidence owed the appellant.

The appellant alleges further, that the appellee must have known about the appellant's 1955 submission at time of filing for patent that issued as 3,186,581 because of the file number at the top of the October, 1962 correspondence being the same (which appellee contends is only a general file number) and certainly the appellee must make a search of these files before filing a patent application. Also, the attorney employee, Mr. George W. Reiber who handled the 1955 submissions, was also one of the prosecuting attorneys for the appellee's application and whose name appears on the patent as such.

It should become apparent to this court from this account and the accompanying record that this court should reverse the verdict of the appellant's civil action by the U.S. District Court for the District of Oregon and appoint a master to interceed in an accounting for the appellant. Appellant prays that this court will reverse the verdict

in order to prevent manifest injustice.

This Brief is

Respectfully submitted,

Philip J. Kenney

Philip J. Kenney, Appellant, appearing in Propria Persona

SERVICE ACCEPTED THIS 7th DAY OF NOVEMBER 1967.

James C. Dezendorf

JAMES C. DEZENDORF

ONE OF ATTORNEYS FOR APPELLEE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Philip J. Kinney

Appellant, appearing in Propria Persona

No. 22,236

In the
United States Court of Appeals
For the Ninth Circuit

PHILIP J. KENNEY,
Appellant,

vs.

AMERICAN CAN COMPANY, a corporation,
Appellee.

APPELLEE'S BRIEF

Appeal from the United States District Court
for the District of Oregon
HONORABLE GUS J. SOLOMON, *Judge*

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No. 22,236

In the

United States Court of Appeals

For the Ninth Circuit

HILIP J. KENNEY,
Appellant,

vs.

MERICAN CAN COMPANY, a corporation,
Appellee.

APPELLEE'S BRIEF

Appeal from the United States District Court
for the District of Oregon
HONORABLE GUS J. SOLOMON, *Judge*

JURISDICTION

Appellant (plaintiff below) is a citizen of Oregon. Appellee (defendant below) is a New Jersey corporaion, with its principal place of business in a state other han the State of Oregon. The claim, exclusive of interest nd costs, exceeds $10,000 (R 44).

Judgment for Appellee was entered August 16, 1967 (R 249), and appellant filed his (second) Notice of Appeal on August 23, 1967 (R 252). The District Court had jurisdiction under 28 USC § 1332, as amended. This Court has jurisdiction under 28 USC § 1291, as amended.

STATEMENT OF THE CASE

Prefatory

Appellant is a layman and is presenting his own case. Whether he is doing so by choice, as he did below (Tr. 6[1]; 36; 97-8) or by necessity, as he says here (PB3[1]; see also Tr. 110-112), it is regrettable that he is not represented by counsel.

The Court below repeatedly urged Appellant to obtain a lawyer (Tr. 6, 36, 97-8, 110-12). When his urgings failed, the Court extended itself to help Appellant present his case and to make sure that the Court understood his case and his contentions.

Under these circumstances, some informality and lack of clarity are inevitable, but should not prejudice Appellant. We attempt below to supply the statement of the case and of the facts, such as usually is made by an appellant, and we venture to state, as well as possible, the grounds of the appeal and the asserted errors (infra pp. 3-16). We believe that any insufficiencies in that regard will not prejudice Appellant or materially impede the disposition of the appeal, because the factual grounds of decision below, and of Appellee's position here, are quite independent of any particular theory or

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1. The following abbreviations will be used throughout this brief: "Tr. 6" refers to page 6 of the reporter's transcript of the trial proceeding; "R. 263" refers to page 263 of the bound original papers transmitted to this Court; "PB3" refers to page 3 of Appellant's (Plaintiff's) brief; "PTO" refers to Pretrial Order consisting of Agreed Statement of Facts and annexed exhibits. Emphasis throughout is ours unless noted.

rationale of Appellant's "grievance". They cut through a great deal, and present affirmative reasons why there can be no rightful claim against Appellee.

Statement of the Pleadings and the Facts

Two facts are the core of the case, viz., (1) the fact that in 1955 Appellant submitted a certain idea to Appellee concerning an "easy open" seal for can tops, and (2) the fact that since 1963 defendant has sold coffee cans having an "easy open" seal. Appellant says, and Appellee denies, that Appellee's seal uses his idea, and on various not too clear theories he claimed a right of recovery, as for a misappropriation. (PTO, at R 77-81). Appellee stated a number of grounds of defense in addition to that basic denial including the fact that the seals of both parties were in the public domain before 1955, so that Appellant could have no claim even if the two had something in common. (PTO, at R 82-86).

The Court below dismissed the complaint on particular but sufficient grounds which made it needless to consider all of the defenses. Its conclusions (R. 246-247) were (1) that a certain executed submission agreement of November, 1955, governs the relation between the parties on the subject at hand; (2) that there was no disclosure in confidence, and no relation of trust and confidence; (3) that Appellee has not breached any agreement with or duty to Appellant, and has not ap-

propriated or misappropriated any property of his; and (4) that Appellant has no basis for a claim against the form of seal used by Appellee.

The material facts are those concerning the 1955 transactions, the "seal" idea then submitted by Appellant, the different seal used by Appellee, and the prior disclosures which show that in all relevant respects both Appellant's seal and Appellee's different seal were in the public domain before 1955. To present these facts here, it seemed best simply to reproduce, with added annotation and a few added comments, the findings of fact (R. 239-246) which we prepared at the request of the Court and which it adopted as submitted, saying (Tr. 108-9):

> "Ordinarily, Mr. Kenney, I don't sign findings in the manner in which they are submitted. But, I think that this is a pretty good set of findings, and sets forth the basis for the decision which I made."

The Findings of Fact[2]

II. The complaint [R1], the amended complaint [R16] and plaintiff's contentions in the pretrial order [R77] purport to state claims under three counts which are not entirely clear in meaning, either as to all of their propositions of fact or their propositions of law or

2. All matter in brackets is added.

their theory of claim, but all of which hinge on the assertion that for the "easy-open" sealing means of a certain can made and sold by defendant since 1963 defendant used something which had been disclosed to it by plaintiff in 1955 and which defendant was under obligation not to use. It is not necessary to resolve all of the questions concerning these three counts because this charge of misappropriation is basic to all of them.

III. In March, 1955, after learning from a publication on the submission of ideas to companies that defendant had a "Form 2538" for the purpose, plaintiff wrote to defendant saying that he had an invention with "Patent Pending" which he would like to submit and asking for copies of Form 2538, which defendant thereupon sent to him. [PTO, IV, at R46]

IV. In August, 1955, plaintiff filled out and executed two copies of Form 2538 [PTO, VIII & Exh. A, R48-9, R96-97], from which he deleted one clause and in which, and in accompanying letters [PTO, VI, at R46-48], he described his idea for a quick and easy means of opening cans without the use of a key. Because of the deletion, an attorney-employee of defendant told [wrote] plaintiff that his tendered disclosure was informal and that defendant could not accept his idea for consideration [PTO, IX, at R49], whereupon correspondence ensued in September and October in

which plaintiff said that he would not accept all of Form 2538 [PTO, X, at R49] and in which defendant repeated its insistence that, if it were to consider plaintiff's idea, it would have to be submitted in accordance with all of the provisions of Form 2538.

V. In November, 1955, however, plaintiff filled out and sent to defendant two new copies of Form 2538 [PTO, XV, & Exh. C, at R52, 102-5] with no deletion, and in these and in an accompanying letter he described his idea, saying that this was in place of his letter of explanation sent in August [PTO, XIV, at R51].

VI. In January, 1956, defendant informed plaintiff that it had considered his November submission, which it read as being substantially the same as his informally tendered submission of August, but would not be interested in his idea [PTO, XVII, at R52-3].

VII. Plaintiff's idea as he described it in his communication of August, 1955, was to seal the circular joint between the body of a can and the depending circular flange of its top or cover by means of a surrounding strip having two parts, namely, an outer strip of aluminum foil and a narrower inner tear-strip or tape, adhered to the inner face of the outer strip, that inner tape providing at its end a free tab which could be grasped by the fingers to pull it around and unseal the joint. In the unsealing, the action of the inner tape

when so pulled was to sever the wider outer strip of foil down the middle so as to leave its two edge parts in their permanent securement to the top and body respectively of the can. For this securement, plaintiff described two expedients, namely, (a) a mechanical clamping expedient involving the folding over or crimping of the metal of the can body and of its cover to form flanges that would pinch the two edges of the outer strip against the metal, and (b) as an alternative, plaintiff said that the strip also can be "adhered to" the top and body of the can instead of rolling it under flanges. No particular adhesive was mentioned. He described also a paper tape to be wound over the top of the aluminum foil as a binder which would hold the cover on under pressure. [See PTO, VI & VIII & Exh. A, at R46-49 & 96-99]

[*Comment:* Appellant's principal reliance has been on the disclosure of this "b" alternative which he has sought to read as a disclosure of a single-layer seal adhesively held.]

VIII. Plaintiff's idea as described in his November, 1955 communication was the same multiple-layer strip, with an inner tear-tape, as in his August, 1955 communication, with the exceptions that, in November, he did not mention the alternative way of securing the outer foil strip to the top and the body of the can by adhesion,

instead of securing it by the described clamping flanges, and that he did not include the further element of a paper tape binder outside the two-part sealing strip. [See PTO, XIV, XV & Exh. C, at R51-2, 102-105]

IX. In none of his 1955 communications did plaintiff describe or in any way suggest a seal consisting of a single strip of foil secured to the metal of the can top and the can body by an adhesive that would seal the joint but would permit that strip to be peeled off as an entirety to unseal the can; the only form of sealing strip described by plaintiff having been the two-part strip and the only manner of unsealing described by him having been the unsealing by use of the narrower inner tear-tape to sever the outer foil strip lengthwise, the edge parts of that outer strip above and below the severance then remaining secured to the metal either by their clamping flanges or by their permanent adhesion to the metal.

X. Defendant's can against which plaintiff's charge is laid is described [Tr. 52-3] in its Schneider patent No. 3,186,581 of 1965, applied for in December 1962 [PTO, Exh. E, R. 109-13], and employs as its means of sealing the circular joint a single strip of aluminum foil which spans the joint and is secured to the metal above and below the joint by a special adhesive, exemplified by an ethylene-acrylic acid copolymer, which provides the

necessary tightness of seal, but, by reason of its low resistance to peel, permits the aluminum foil to be peeled off as an entirety, with no tear-tape and no severance of the foil strip. [R. 111, Col. 3, lines 4-26; 47-50; Col. 4, lines 7-10]

XI. There is no evidence and no basis for an inference that in devising or adopting this form of sealing means defendant made any resort to or derived anything from the communications from plaintiff in 1955, which are kept in a file of many hundreds of submitted suggestions with no subject-matter index [Tr. 53-62]; and this form of single-layer sealing strip used by defendant, with its adhesive of low peel resistance permitting its removal as an entirety, is distinct from plaintiff's multiple layer strip in which unsealing is effected by action of the inner tape in severing the outer foil strip, leaving the two edge parts of the latter in their permanent securement to the metal.

XII. Plaintiff's patent application of January 1955, not disclosed to defendant but alluded to in plaintiff's communications of 1955 as a "Patent Pending" on his idea [PTO, IV & VI, at R. 46 & 48], described only his multiple layer sealing strip employing the idea of severance for unsealing [Tr. 48], and described as the means of securing the edges of the outer strip to the can top and can body only the use of an adhesive [Tr. 89]; and

neither in that patent application, which was abandoned, nor in two subsequent patent applications of 1961 and 1964, did plaintiff describe the idea of a single strip of aluminum foil secured to the metal by an adhesive permitting it to be peeled off as an entirety. [Tr. 48, 42, 89; for the application of January, 1955, see DX3 & PTO, II & III, at R. 45-6; for the 1961 application, see the patent issued thereon, No. 3,096,905 (R106); and for the 1964 application see R. 113-120]

XIII. Before 1955, a single layer sealing strip (tape) adhered to the top and to the body of a can, running around the circular joint between the two, and removable by being peeled off as an entirety, had been described in a number of patents [Exh. C1-C6, at R.181-211] including one as early as 1890 [R.181] and including two patents granted to defendant [R.191 & 197]; and in relation to this form of seal the use of aluminum foil as the single-layer material had been described in patents of that prior time [Exh. C5 & C6, at R200-209].

XIV. Also, before 1955, there were patents [Exh. D1-2, R.212-217] which described the multiple-layer, tear-strip style of seal which plaintiff adopted, with its inner tape or cord serving as the means of unsealing by severance of the outer strip, although without plaintiff's feature of the clamping flanges as the means of secur-

ing the edge parts of the outer strip to the can top and the can body; and at least one of those patents was known to defendant and was brought to plaintiff's attention in 1955 both by defendant and by the Patent Office. [Roden patent 1,180,541, at R.212, PTO, XII, at R.50; PTO XIII & Exh. B, at R.50 & 100.]

XV. Defendant has not appropriated any idea disclosed to it by plaintiff; but, on the contrary, with the exception of the particular adhesive of low peel resistance which defendant has used and which plaintiff did not disclose to it, defendant has used a form of single-layer, peel-off seal which was in the public domain prior to 1955. [cf. Findings VII to X, and XIII-XIV, *supra*]

XVI. The dealings between the parties in 1955 did not rest upon or give rise to any expressed mutually understood relation of trust and confidence. Not only did plaintiff not suggest in any way in 1955 that he was making a disclosure in confidence, but he knew in advance, from the express terms of Form 2538 which he did not delete in August 1955 [PTO VIII & Exh. A, ¶ E & F, at R48 & 97], and which were repeated in the full executed submission agreement of November 1955 [PTO, Exh. C, at R. 103], that defendant would not receive a disclosure in confidence and would receive one only on all of the terms and conditions of its Form 2538

which expressly excluded any disclosure in confidence [PTO, IX & XII, at R. 49 & 50].

XVII. Under the provisions of its Form 2538 which plaintiff accepted as the basis of his communications to defendant in 1955, defendant reserved its freedom to use things that already were in the public domain, even if included in what plaintiff disclosed [Form 2538 at R.103 ¶ E]; but because defendant did not use what plaintiff disclosed to it in 1955 it is not necessary to rest defendant's freedom on that reservation.

XVIII. By express statements to defendant in and after 1955, plaintiff evidenced a reliance upon whatever patent protection he might obtain, rather than upon any premise of a disclosure in confidence [R.55-59; 61-63]; and although he has reserved his position on his patent No. 3,096,905 which he obtained on his application filed in 1961, in this action and in the pre-trial order, he has made no charge of infringement of that patent by defendant [Tr. 97].

XIX. Plaintiff disclosed his idea to a number of companies in the years 1955 to 1965 inclusive [PTO, LIII. at R. 74-5], and has not shown that in or after 1955 he treated it as a secret or took measures to protect it as a secret. His assertion is that none of these disclosures included the idea of a single-layer, peel-off strip adhered to the metal of the can top and can body, and that he

withheld that idea [Tr. 21], but it was not shown that he ever was in possession of that idea until he learned of defendant's can employing that different form of seal.

The Errors Relied upon by Appellant

Appellant's Brief does not set out either separately or particularly the errors intended to be urged. There is no reference to any of the findings of the District Court, and so a determination of the findings complained of and the particulars in which such findings are claimed to be erroneous is left to inference.[3]

From certain conclusory assertions of fact in the brief, we can infer that certain of the Court's findings are contested, but the grounds do not appear.

Speaking of Appellee's 1963 can (the accused can), which uses a single peelable strip as the sealing member (FF10[4], ante p. 8), Appellant says: "This [sealing member] was disclosed to Appellee in the August 1955 disclosure." (PB4) This assertion challenges the findings of the District Court to the contrary in regard to the 1955 disclosures. (See FF VII, VIII, IX & XV, ante pp. 6-8, 11).

Speaking of Paragraph G of the formal agreement, Form 2538, Appellant says: "The Appellee owed a duty

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3. These remarks apply equally to Appellant's Statement of Points (R263-4).
4. FF stands for the Court's Findings of Fact.

of secrecy to the Appellant prior to the consumation of any agreement" and that Appellee breached "this confidence" when it placed on the market the accused can (PB4). At this point Appellant seems to contest the finding and conclusion of the District Court that no relation of trust and confidence existed (Finding XVI, ante p. 11; and see R. 245, and R. 246). Later, however, Appellant says that in using the single sealing strip of peelable material, asserted to have been included in the August 1955 disclosure, Appellee "breached a contractual relationship and consequently a duty of confidence owed the Appellant" (PB7), but there is no identification of the grounds relied upon. The District Court held that "the legal rights and relations of the parties * * * are governed" by the submission Agreement (Form 2538) executed by Appellant in November, 1955. (Conclusion of Law I, R. 246). Earlier, Appellant straddles the question. He refers to Appellee's supposed misappropriation and asserts it "resulted in breaching a confidential and/or contractual relationship between the parties." (PB 3-4).

So it is not clear whether Appellant does actually challenge the Court's Finding XVI (ante p. 11) on the asserted confidential relationship, and Conclusions of Law I and II based thereon. (R.246).

In the next to last paragraph of his brief, Appellant

does challenge the facts found in finding XI (ante p. 9) on the asserted derivation from Appellant, but again on no stated basis.

We find no challenge to any of the District Court's other findings, in particular findings XIII, XIV, XVII (ante pp. 10-11, 12). Indeed, we do not think they are or can be protested. These findings of themselves are sufficient to sustain the Court's judgment.

There is a criticism in the brief (PB 5-6) of the objection to certain evidence having to do with conversations held during the course of settlement negotiations (the ground relied upon being incorrectly stated by Appellant), but no mention is made of the Court's ruling sustaining the objection. Whether this is intended to be a criticism of the Court's ruling is uncertain.

Thus it would appear that Appellant challenges the following:

1. The findings as to what form of seal was described in his August 1955 submission, namely, findings of fact VII, VIII and IX (ante pp. 7-8, 9).

2. The finding that there is no proof or basis for inference that Appellee derived its 1963 can structure from the communications of plaintiff in 1965 (FF XI, ante p. 9) and,

3. Possibly finding XVI that the dealings between

the parties in 1955 did not rest upon or give rise to any relation of trust and confidence, and the conclusion that the relationship between the parties is governed by the November submission agreement. (Conclusions of Law I and II, R.246).

Appellee may also be challenging the Court's exclusion of evidence of conversations had in the course of settlement negotiations (Tr. 30-31). We rest on the Court's ruling. No comment is required.

SUMMARY OF ARGUMENT

1. Appellee has not used any idea, new or old, disclosed to it by Appellant in his 1955 communications.

2. What Appellee used in 1963, and since, was in the public domain and was known to Appellee before Appellant's 1955 communications (save for the particular type of adhesive used, a detail not disclosed by Appellant). In addition, Appellant's two-part tear-tape structure was basically old, and any novelty in it related to the particular form of crimping securement of the multiple strip by the metal of the top and body of the can, a structure not used by Appellee. So there is no subject matter as to which Appellant could have a claim against Appellee.

3. As a further proposition, not necessary to a disposition of the case if either of the first two major proposi-

tions is sustained, we add that there was no disclosure in confidence and therefore no obligation that might arise from a confidential disclosure.

ARGUMENT

1.

Appellee has not used any idea, new or old, that was disclosed to it by Appellant in his 1955 communications.

What Appellant disclosed in 1955.

The general subject involved is a tape or strip that is wrapped around a can, and is somehow secured to it, to cover and seal the joint between the can body and the depending flange of its cover or lid. The tape is secured to the metal in a way that seals and holds the cover in place during shipment and storage, but lets the user break the seal by pulling on a projecting tab at one end of the tape to unseal and release the cover. Appellant's 1955 idea was a specific way of providing such a seal.

As to his specifics, it simplifies here to consider first what was described in Appellant's disclosure of November 1955, because there is no dispute about it and it largely duplicates what was described in the earlier description "informally" submitted on August 9, 1955, as to which there is one dispute.

The November, 1955 disclosure comprises a sketch and explanatory text on the third page of submission Form 2538 as it was executed by Appellant on November 7, 1955 (PTO, Exh. C, R.104), and in the additional descriptive matter accompanying the transmittal letter of November 7, 1955 (PTO, paragraph XIV, R. 51-2).[5]

The sketches, the text concerning them and the letter, together describe a can body and its cover or lid, which has a downward circular flange, with Appellant's idea of how to provide a tape seal for the joint between lid (3) and body (7). The tape seal proper (4) has two parts that are stuck together; namely, a narrow inner tape (2) and outside it a wider strip (1). The inner tape (2) is of plastic and the outer strip (1) is of aluminum foil. This is not the thin household foil, but "similar to that used in the manufacture of freezer type pie plates" (PTO, R. 51, at lines 17-18).

This two-part structure (4) is wrapped around the can in a way to span and cover the joint. To secure it to the can, the outlying side edges of the foil strip (1), beyond the edges of the narrower inner tape (2), are permanently clamped to the can by crimping or rolling metal parts (6) of the can over them. The details of

5. This was Appellant's only formal submission, and the execution of Form 2538 by the parties created an agreement governing their legal rights and relations with respect to the disclosure. On the present point it is needless to consider what those rights and relations were, since Appellee did not use the subject matter to which they pertain.

this mechanical clamping need no attention. The plastic inner tear-tape (2) is not adhered to the can.

To break the seal and free the cover, a pull tab (5) is provided by an endwise extension of the inner plastic tape (2) which projects beyond the end of the foil strip (1). This tab, sticking out, is grasped by the user, who then pulls it around. This pulling around of the inner tape tears or rips the overlying foil strip down its middle, along the edges of the clamping flanges. (See PTO, R. 52, at lines 3-6). The foil strip is thus severed lengthwise, but its untorn parts remain clamped to the can top and can body. The foil strip thus is not peeled off as a whole but is merely severed to break the seal.

This is the construction described and claimed in Appellant's patent No. 3,096,905 of 1963, applied for in 1961 (PTO, Exh. D; R. 106).

In his earlier communication of August 9, 1955 (PTO; VI, R. 46-8 particularly on p. 48, and Exh. A, R. 98), Appellant described this same two-part, tear-tape construction. This will be evident from the sketches in the Form 2538 as then sent in by Appellant (PTO, Exh. A, R. 98), and from the accompanying letter (PTO, R. 48).

He showed and described the two-part strip; wider foil (1) and narrower inner tape (3) adhered to the foil; the clamping of the side-edges of the foil to the

can by bent over parts called "flanges" (5) of the can body (8) and cover (9); and the severing of the foil when the inner tear-tape is pulled around (PTO, R. 48, at lines 9-10).

Then, in one sentence, he also described a suggested modification. The only dispute here, on the whole matter of what plaintiff described in 1955, concerns that single sentence, emphasized below, which is the last one in the second of the two paragraphs which set its context (PTO, p. 4), viz.,

> "Fig. 1 illustrates my new tape seal invention which I have named the "Keyless Can Opener" for means of identification. On this idea I have filed for patent. Fig. 2 shows the tape No. 6 on the can just before the can is sealed. Fig. 3 shows the sealed can. To open the can after sealing one only has to pull on the tab of the tape No. 4 winding it around the can thereby severing the seal, freeing the top from the can body.
>
> "Fig. 1 is composed of, for example, a strip of aluminum foil No. 1 adhered to this foil is a plastic tape No. 3. If so required, a coating of rubber or plastic can be applied to the edges such as No. 2 as these edges are to be rolled or crimped under the flanges No. 5 on the can top (telescopic) and the can body. Refer to Fig. 2. *Also this can be adhered to the top and bottom of the can instead of rolling it under the flanges if found desirable.*"

There is no dispute on the point that this sentence describes the adhesion of the foil strip to the can, as an

alternative to the mechanical clamping securement, shown in the sketch, by "rolling it under the flanges." Also there is no dispute on the point that the words "this" and "it", in reference to the part that can be "adhered", rather than being clamped by "flanges", is the foil strip "No. 1". The single question arises on Appellant's contention that this sentence describes not only this adhesion of the outlying side edges of the foil, as an alternative means of securement, but also describes a construction in which the inner tear-tape "No. 3" is *omitted* and in which unsealing is done by peeling off the metal foil strip *as a whole*, rather than by severing it lengthwise down the middle by pulling an inner tear-tape.

It is Appellee's submission that the sentence in question does *not* describe the idea of a single-layer strip of adherent "peel" tape, with no inner tear-tape, but describes *only* the two-part strip and *only* the one means of unsealing by the severing action of the tear-tape "No. 3"; and that the only content of the sentence is the idea of adhesion as an alternative way of securing the same two-part seal (foil No. 1 plus the narrower, inner tear-tape No. 3) to the top and bottom of the can, instead of using rolled over flanges to clamp the two-part seal in place. This interpretation is confirmed by the following facts:

First, the text has no mention whatever, or hint even, of omitting the inner tear-tape (3), or of unsealing by peel-off instead of by tear-tape severing of an outer strip. The immediately preceding paragraph, quoted above, which is a statement concerning the same "Fig. 1", contains the only description that is given of the unsealing action, and says: "To open the can after sealing one only has to pull on the tab of the tape No. 4 winding it around the can *thereby severing the seal*, freeing the top from the can body." The sentence on the "adhesion" alternative is in the succeeding paragraph which goes on to describe the structural details of that same "Fig. 1" sealing structure. Had Appellant contemplated the omission of any structural part, or any different unsealing action, a further statement on those subjects would have been needed. It is not there.

Second, this same August 9, 1955 letter says that "On this idea I have filed for patent", as indeed he had. The patent application referred to (PTO, II and III, R. 45-6), filed January 12, 1955, does *not* describe the securement by clamping flanges, but describes *only* the securement by adhesion which the sentence in question sets forth; but in that application the thing adhered to the top and body of the can is the two-part seal strip with the narrow, inner tear-tape, (sometimes referred to as the "multiple strip") and the *only* means of unsealing that is described is by severing the adhered

foil strip when the tab end of the inner-tape is pulled around the can, exactly as described in the letter of August 9, 1955 (Tr. 48). This shows that the idea of a two-part, tear-tape structure was the only "idea" Appellant had in his possession in early 1955; and that the idea of adhesion applied only to that sealing structure. In his August 9, 1955 letter he could not have described the single-layer seal strip structure that is peeled off as an entirety because the whole evidence of his then idea shows that he was not in possession of that different idea of the structure and of the unsealing action.

Third, Mr. Reiber's response of January 9, 1956 to Appellant's November, 1955, submission shows that he read Appellant's August 9 letter as describing only the two-part, tear-tape constructure (PTO, XVII, R. 52-3). He referred to the November "suggestion" as being "substantially the same as that which you had earlier submitted informally" (i.e., on August 9) and as being "the substitution of a *combination aluminum foil and plastic tape tearing strip* for the conventional integral tearing strip in metal cans". The conventional "integral" strip was the one in which a strip of the metal of the can wall was torn free along score lines by winding it up on a hand-operated key. Appellant had referred to that in calling his idea a "Keyless Can Opener."

Finally when Appellant came to file again for patent

protection on his new "idea" in 1961 he again disclosed only his multiple strip (FF XII, ante pp. 9-10). If he had ever had the idea of a single peelable strip seal this was the time to bring it forward. But it is not there. (Tr. 21-22). It is also inconceivable that, desperate as he was to find backers, he should never have disclosed this added idea (the single peelable strip) if he had had it, to the many companies to which he submitted his multiple seal idea with the rolling or metal clamping type of securement (Tr. 21; PTO, LIII, R. 74-5).

On this evidence, it is plain that the only can seal structure that Appellant disclosed to Appellee in 1955 was the two-part structure including an inner plastic tear-tape for unsealing by severing the outer strip of aluminum foil. This disclosed modification had to do only with the means of securing that two-part structure to the can, by adhesion rather than by clamping. His then pending patent application, not shown to Appellee, indicates that he was not then even in possession of the idea of adhering a layer of aluminum foil alone to seal the can, which he now contends he disclosed to Appellee.

What Appellee used.

In 1963 Appellee began marketing the can having the seal which Appellant says uses his idea of 1955. That

can is shown in Appellee's Schneider et al patent No. 3,-186,581 of 1965, applied for December 20, 1962 (Tr. 52-3; for patent see item A in the book of patents or PTO, Exh. E, R. 109). A sample was filed with the complaint (PTO, Exh. I, R. 127). In it, the joint or gap that is sealed is not the usual one between the can body and the lid, but is a slit 36, in the can *body* 10, that runs almost all the way around, leaving a short uncut sector near the top edge of the body. The part of the can body *above* the slit 36 extends into the folded-over joint where it is joined to the lid 30. When the seal strip is removed, this upper part of the body remains joined to the cover.

The seal strip 40 is a single layer of aluminum foil held to the can body, above and below the slit 36, by a special adhesive described as a "thermoplastic resin * * * of low peel resistance". This adhesive is exemplified in the Schneider et al patent by an "ethylene-acrylic acid copolymer" (See patent at lines 4-6 of column 3). To break the seal, this foil strip is peeled off in its entirety, with no ripping or tearing or severing (id, lines 7-10 of column 4). There is no inner tear-tape.

When this seal strip 40 is removed, the cover is lifted by tilting it on the hinge formed by the uncut sector 38, and it can be removed entirely by flexing it until this uncut sector breaks.

No use of Appellant's idea.

For the present purpose, we put to one side the differences in Appellee's can structure, as to how the top and body are related, and also the fact that Appellee seals a slit 36 in the can *body*, rather than the joint between the can body and a cover flange that telescopes into the body. Looking to the make-up of the sealing strip itself, and to how the seal is broken, it is evident at once that Appellee has not used Appellant's 1955 idea of how to provide an easy-open seal.

Appellee has not used Appellant's two-part strip (multiple strip), with its tear-tape and its break of the seal by severance of the permanently secured foil strip; but instead, with the help of a special modern adhesive not described by Appellant, it has used only a *single foil strip*, adhered to the can body for sealing and *removed as an entirety by peeling it off*, with no rip or tear or severance.

It seems that even Appellant recognizes that there is no basis for his claim in his two-part, tear-tape idea, for his reliance seems to be upon his erroneous premise that his reference to an "adhered" modification, in that one sentence of his August 9, 1955 letter, was a description of a single-layer foil strip, omitting the inner tear-tape, for removal as an entirety by peeling off. The error of that having been shown (ante pp. 22-24), it is

plain that there is no basis for the claim that Appellee has used something that was disclosed to it by Appellant in 1955.

This in itself disposes of the whole action, regardless of whether the form of seal described by Appellant was new or was old. To have even a hope of a claim, Appellant would have to show both that he disclosed something new, and also that Appellee used it; but since Appellee has not used what he did disclose, there is a fatal gap at the very outset as to one of the two minimal and basic prerequisites of a claim. The third prerequisite, a relation of contract or of trust creating an obligation to Appellant, is absent also but need not be considered in full at this point. See *American Potato Dryers v. Peters*, 184 F2d 165, at 172 (CCA 4, 1950); *Hisel v. Chrysler Corp.*, 94 F Supp 996, at 1002 (WD Mo, 1951), aff'd 187 F2d 285; *De Filippis v. Chrysler Corporation*, 53 F Supp 977, at 980-981 (SD, NY 1944) aff'd 159 F2d 478; *Carneval v. William Morris Agency, Inc.*, 98 US PQ 84, at 85 (SC, NY 1953).

Appellant's contentions.

Appellant ignores the evidence just reviewed as to what actually was disclosed and as to what Appellee has used; and instead relies on two items which he conceives to have probative force as evidence establishing a misappropriation.

1. He says that his attorney in writing to Appellee stated "without reservation" that Appellee had misappropriated his property (PB4), as if counsel's claim could be taken as proof of the fact claimed.[6] The Court below pointed out to him that counsel's letter had no force as evidence and was not proof of the claim asserted (Tr. 33). We do not need to say more.

2. That as a result of the above charge Appellee proposed a meeting at which Appellant's grievance was to be "seriously explored" and this action on Appellant's part exploring the possibility of a settlement of the controversy constituted a "tacit agreement with appellant's grievance" (PB 4-5). The Court below explicitly warned Appellee that he was not to go into the matter of any settlement agreements, explaining that the law favors settlement and that if testimony in regard thereto could be used "to prove the main case, people would be afraid to enter settlement negotiations." (Tr. 39-40; 98-9) This is, of course, hornbook law. *West v. Smith*, 101 U.S. 263, 272-3 (1879).

2.

What Appellee used in 1963, and since, was in the public domain and was known to Appellee before Appellant's 1955 communications (save for the particular type of adhesive which is a detail not disclosed by Appellant), as was

6. That counsel did have serious reservations, is seen by their earlier letter. (PTO, XLA, R.65-7)

also Appellant's tear-tape seal structure; so there is no subject matter as to which Appellant could have a right against Appellee.

Long, long before 1955, it was public knowledge and was known to Appellee, that the joint in a container (can or whatever) could be sealed by an encircling strip taking either of two forms, viz., a single-layer adhered strip that could be peeled off as an entirety, or a two-part strip that could be ripped (severed) by pulling an inner tear-tape, leaving the two side edges of the outer layer in their permanent securement on either side of the joint. With either structure of sealing strip, securement by some form of adhesion was commonplace.

Peel-off seals.

In 1890, the Hidden patent No. 424-982 (Exh. C-1, R. 181) described the peel-off strip as an old idea even then. In those days, the strip covering the joint was adhered to the cover and to the body of the can by solder; but the idea of how to seal the joint, and how to unseal it, was precisely that used by Appellee, although in Appellee's case with a modern thermoplastic adhesive instead of solder. Hidden, whose "invention" had to do with reducing slip of the fingers on pull tab, said this of what was known in 1890 (R. 182, lines 11-17):

> "This invention relates to that class of sheet-metal cans in which the cover is connected with the

body of the can by means of a sealing-strip soldered at its upper and lower edges to the cover and body of the can, respectively, so that by tearing away said sealing-strip the cover may be readily removed from the body."

In Hidden's can, the metal peel-off strip C surrounded the can at the joint between the cover B and the can body A; and had an "extension" tab *c* sticking out to be grasped and pulled. What he called "tearing away" is not a severance of the strip but a peeling off.

The patent No. 1,311,541 of 1919 to Tomlinson et al (Exh. C-2, R. 183) described a use of such a soldered "peel-off" strip to seal a slit which extended only part way around the body, leaving a scored and uncut line to serve as a hinge when the seal is peeled off and the container is opened, as in Appellee's can. This patent said (R. 184, lines 25-29; 35-45):

"We provide such a container by slitting the metal blank for a sufficient distance and then soldering a metal strip, known as taggers tin,[7] over the slit. * * * It is desirable to have the slit extend across what may be termed the top of the container (in the case of a rectangular container), and part way down the two sides, the metal being scored from the ends of the slit to the bottoms of the sides. The metal

7. The material described as "taggers tin" is a form of light gauge tin akin to the relatively thick aluminum foil referred to by Appellant, which is not the familiar household foil, but is a thicker sort as used in pie tins. See PTO, R. 51, lines 17-18; and Encyclopedia of The Iron and Steel Industry, p. 419, "taggers", (Exh. E, R.220). Appellant does not conceive of his subject matter as being limited to any particular metal. Indeed he asserts that it embraces adhering of "foil strip, or in fact any materials to cans" (PB7).

strip or taggers tin is soldered at its edges so as to make the slit air- and gas-tight, the strip being, however, *easily detachable by outward pull* on one end thereof, which end is left unfastened."

That Appellee knew of that peel-off style of seal is evidenced by two patents which show on their faces that they were issued to it in 1943 and 1951, viz., Socke 2,334,224 and Peters 2,555,366. (Exh. C-3 & C-4, R. 191 & R. 197)

Appellee's Socke patent deals with machinery (here immaterial) to apply such a seal around the joint between the top and the body of a can, the inner face of the seal tape being coated with an adhesive to hold it in place. By that time, peelable adhesives had replaced solder. Such a one-layer sealing tape is referred to by Socke as something known, a Cellophane plastic tape being cited in particular as a suitable material (Socke, col. 1, lines 5-12, R. 191). The tape is shown in Fig. 15 of the Socke patent as part C, at the joint between can body A and cover B (R. 191). An end F of the sealing tape is left free to serve as a pull tab. The "peel-off" idea is expressed by saying that this tab is "for convenient manual engagement to *pull the tape off the can, when it is desired to open the latter*. This is done by *stripping off* the tape which is thus *removed as an integral unit*". (Socke, R. 194; column 1, lines 67-74).

Appellee's Peters patent (R. 196) shows a like sealing tape 32 around the joint between the body 11 and hinged top 14 of a can, illustrated as the familiar pocket size tobacco can. The can body has a wide outward bead 18 near its top, and the "depending flange wall" 28 of the hinged cover is "flush with the outside wall of the bead to provide a uniform surface for application of a *sealing tape which extends over the adjacent* flush edges of the cover and the bead when the *cover is in closed position on the can.*" (Peters, R. 197, column 1, lines 11-17). The unsealing, for opening the can, is described thus:

> "When it is desired to open the can *the sealing tape may be pulled off* or if desired may be cut along the terminal edge of the cover flange. The cover may then be hinged to open position and may be repeatedly used as a reclosure of the can." (R. 198, column 3, lines 18-23).

The choice between plastic or thin metal ("foil" in the present context) as the tape material of course is an open one in this day and age; but to put even this detail out of the area of dispute we note that the use of metal foil, and of aluminum foil in particular, as the material for such a sealing tape is explicitly described in the pre-1955 patents of Weber, 2,504,060 and Baron, 2,528,296. Both show that a sealing tape of metal foil was a commonplace, in that they do not describe it as a novelty

but are concerned with ways of applying such tape in mass production. As Weber says, at lines 1-8 and 29-36 of column 1 (R.204):

> "The present invention is concerned with the sealing of tins or other containers against ingress of air or moisture by means of *adhesive tape* which is applied in the form of an *encircling band overlapping the crevice formed between the container and its associated lid*, the edge of the lid overlapping the sides of the container.
>
> * * * * *
>
> "In some cases it is desired to use a *metallic tape* for sealing purposes such as, for example, *one composed of aluminum foil* and the chief object of the present invention is to effect certain improvements in or modifications of the existing machine to enable *such metallic tape* to be efficiently applied to provide efficient sealing of the tin or other container."

The Baron patent deals similarly with a machine for applying such an adhesive tape, and opens similarly by saying, at lines 7-15 of column 1 (R.210):

> "According to this invention the joint between related metal box parts is effectively sealed by applying thereto with the aid of heat and pressure a composite sheet material composed of a strip of *tin, aluminum or like metal foil* faced on one side with india rubber, gutta percha or like impervious material adapted under the influence of heat to soften and assume an *adhesive* condition."

These patents, pre-1955, put it beyond question that Appellee's can, here accused as to its single-layer aluminum foil sealing tape, was based in that respect upon an ancient and well known expedient. (See also footnote, post p. 38). Even had Appellant's 1955 submissions to Appellee included a description of such a single-layer tape (which they did not), they would have stood in the category of being "yesterday's newspaper." There could be no circumstances under which anyone's freedom to use such a tape could be cut down, all others remaining free to use it, merely because someone wrote in with a repetition of what several, including Appellee itself, had made public years before. Cases, ante p. 27, and *Masline v. N.Y., N.J. & H. RR Co.*, 112 Atl 639 (SC, Conn, 1921).

Two-part, tear-tape seals.

The other known scheme for providing an "easy-open" sealing type was the one Appellant adopted; namely, a two-part strip in which the narrower inner layer, adhered to the outer, serves as a tear tape by which to sever the outer strip, leaving the two side edges of the outer strip in their permanent securement (conventionally by adhesion) to the top and body respectively of the can. This idea was fully disclosed in the Roden patent No. 1,180,541 of 1916 (Exh. D-1, R.212) which was in Appellee's Patent Library and which Mr.

Reiber of Appellee brought to Appellant's attention in October, 1955 (PTO, XII, R.50). The Roden patent shows the wider outer strip 10, gummed on its inner face, the inner narrower strip 12 adhered to the outer strip, and the pull-tab 13. Roden recognized this as being old in 1916 and purported only to "provide a wrapper, label or sealing strip of improved construction" (R. 213, lines 15-22). He described his as a keyless opener, saying that he had "improved means for permitting such strip to be readily ruptured or torn apart to allow the can or carton to be opened *without use of any instrument aside from the means contained within the sealing strip itself*" (R.213, line 75 to R.214, line 11). Roden's text would serve as a description of Appellant's idea (save for the material of the outer strip, which in 1916 was not the aluminum foil of later years that was resorted to by the later patentees cited above and by Appellant, as cited above). Roden said (R.213-4):

> "* * * The face of the strip 10, which is to be applied to the can or carton, is provided with some suitable adhesive material, such as gum or mucilage, and the strip 12 when placed upon the strip 10 is secured thereto by the adhesive material, the outside face of the strip 12 not being provided with adhesive material, so that the outside of this strip will not adhere to the surface of the can or carton. This strip 12 is preferably of tougher material of the same kind as the strip 10, or may be of other material, the object being that in removing the strip 12, the strip 10 will be ruptured or fractured before the strip 12 is broken, *thus permitting the strip 10 to be*

broken the full length of the strip when the strip 12 is removed. This strip 12 when the adhesive strip is applied to the can or carton is designed to lie adjacent the lower extremity of the flange on the lid or cover, so that the operator when it is desired to open the can or carton may, by pulling on the free end of the strip, cause it to fracture the sealing strip throughout the length thereof, and about the periphery of the lid or cover, *in the well known manner,* to permit the same to be removed.

"For convenience in manipulating the strip 12 to open the package, one end of the strip, as at 13, is extended beyond the end of the adhesive strip 10, in order that the protruding end may be grasped more easily."

The same idea of a two-part, tear-tape seal was described in 1938 by the Schunemann patent 2,120,629 (R.216), which up-dated the subject by specifying "metal foil" as a suitable material for the outer strip (his part 1). This patent said (R.217, lines 3-18):

"This invention relates to an air and moisture proof *rip seal* for packages and boxes of any kind, more particularly cigarette packages of that type wherein the opening joint of the package, for instance the joint between the base part and the cover, is effected by an air and moisture proof seal strip, for instance, of cellulose derivatives *or metal foil,* which is provided on the inner side with a layer of glue and *carries on this glued side a narrower strip,* for instance of metal foil or a plurality of spaced strips or cords (of hemp) which serve as ripping strips or cords so that when the package is opened, *not the entire seal strip surrounding the opening*

> *joint is torn off but only the middle part of the strip which is covered by the ripping cords or ripping strips."*

On this evidence of what was in the public domain well before 1955, it is evident that except for his clamping flange idea Appellant had nothing new which could be a trade secret or exclusive property, and it is not surprising to find that both parties here were able to obtain only very narrow claims when they sought patents on their respective constructions. Appellant's patent 3,096,905 (R.106) is limited necessarily to specific details, including the securement of the side edges of the outer strip by folded-over clamping flanges on the can cover and can body. Appellee's Schneider patent (R.109), which is not a patent on the peel-off seal strip itself, is limited to the particular can construction employing it. It is limited in its claims not only to the special type of adhesive of low peel resistance for the peel-off strip, but to such details of the can construction as the "circumferential slit" in the can *body* and the "collar" 58 for supporting the can body behind that slit and for providing a reclosure seat.

It is plain from this indisputable evidence that in 1955 Appellant had nothing new in his "idea" as described to Appellee except for very specific details, such as the flange clamps which it is not contended defend-

ant has used. Appellant's claim here entirely ignores what was known to Appellee and free to all, and seeks to tax Appellee, by reason of his having submitted to Appellee an idea which was as old as the hills, despite the fact that Appellee never used that style of seal but used the simpler and equally well known peel-off style of seal.[8]

The dismissal of Appellant's claim was right for each of the two reasons, that what he disclosed was not used by Appellee and that it was not new, and was susceptible of exclusive protection only as to highly specific details, such as the clamping feature, of no moment here.

3.

There was no disclosure in confidence and therefore no obligation such as might arise from a confidential disclosure.

This is a serious charge, and we believe it should be answered squarely, even though its merit is immaterial because, as shown above, Appellee has used nothing new that Appellant disclosed to it. Even if the circumstances of the August 9, 1955 communication of Appellant were such that a "Trust" obligation would have arisen *if*

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8. Appellant does not question in his brief the validity of findings XIII and XIV (ante p. 10) that both of these styles were old, and at the trial he appeared to concede that they were. (As to the single peel-off strip see Tr. 82; as to the "multiple strip" see Tr. 93-4).

Appellant had disclosed anything new and *if* Appellee had used that new matter, Appellant would have no claim unless he showed that there was in fact something new and that Appellee did use it. It is because Appellant cannot show either of those elements that it is needless to determine whether or not the relation was one of trust and confidence; but we venture nevertheless to state the reasons why the episode could not have given rise to that relation.

The relevant facts are these. From a publication concerning this matter of submitting ideas to a company, Appellant had learned that Appellee had a submission form No. 2538, stating the conditions on which it would consider an idea from outside its organization (FF III, ante p. 5). On March 4, 1955, he wrote to Appellee, not describing his idea, but saying he had an invention with "Patent Pending" and asking for copies of "Form 2538" and on March 7, Appellee's Mr. Erne sent him the blank forms with a letter stating that if Appellant wished to disclose his invention fully and definitely, Appellee might then investigate its merits (PTO, IV and V, R.46).

On August 9, having filled out the form by making sketches and writing explanatory words in the space provided, he sent in the Form 2538, but with a letter (PTO, VI, R.46-7) saying:

"I am submitting my invention for your inspec-

> tion after modifying the last sentence in paragraph E. I didn't quite understand it. I hope this will be permissible."

The modification was a deletion of one clause, of no present materiality.

This bespeaks the fact that between March and August Appellant had examined the terms of Form 2538 and was content with them, since he elected to use the form, except for one clause he "didn't quite understand."

Appellee's attorney-employee, Mr. Reiber, replied on August 17 saying that "we cannot accept this disclosure because it is informal in that you have stricken from it a portion of paragraph E." Reiber explained the stricken clause, sent two new forms, and concluded by saying: "Upon receipt of the newly submitted idea we will consider it and advise you of our decision." (PTO, IX, R.49).

Correspondence followed in which Appellant said "After further study I have decided that I would rather not submit new drawings under the conditions set forth in paragraph E as a whole." (PTO, X, R.49) Then on November 7, 1955 Appellant executed and sent to Appellee copies of Form 2538, unaltered, with accompanying letters in one of which, preceding a description of his two-part tear-tape held by clamping, he said:

"I am submitting this letter to explain my new idea in place of the letter of explanation dated August 9, 1955" (PTO, XIV, R.51)

Appellee executed these unaltered copies of Form 2538, proceeded to consider the idea disclosed, and on January 9, 1956 informed Appellant of its views concerning his suggestion (which it referred to as "the substitution of a combination of aluminum foil and plastic tape tearing strip"); namely (a) that "the added cost in manufacture * * * would seem unwarranted", (b) that it was "broadly anticipated" by certain identified prior patents, including that of Roden (ante p. 34); and (c) that "In view of the above explanations, we would not be interested in your suggestion". (PTO, XVII, R. 52-3).

These facts establish the following:

1. At no point did Appellant say or imply that his communication of August 9, 1955 was in confidence.

2. That communication was not only voluntary on Appellant's part but was made with full knowledge, from his evident careful study of Form 2538, that Appellee (for reasons stated in the form) "cannot look into any idea or ideas submitted except on the terms and conditions set forth in the following form", (PTO, Exh. A and Exh. C, R.96 and 102).

3. That one of those terms and conditions was that of paragraph F of the form which said:

> "It is clearly understood that I submit my idea for your consideration without creating any confidential relationship between us nor do I impose upon you any pledge of secrecy but merely accept your intention to give my idea no unnecessary publicity."

4. The communication of August 9, 1955 did not stand in isolation but was a part of a course of dealing, begun in March, in which Appellant sought to submit his idea and, after the minor haggling in August-October (PTO, IX-XII, R.49-50) over the terms that were to govern, finally did submit it on November 10, 1955 on all of the well-considered terms and conditions of Form 2538.

5. In August and throughout Appellant knew that there could be no mutually understood confidential relationship, because Form 2538, which he received in March, told him that Appellee would not accept his submission on that basis; and save for his temporary boggle over the clause in paragraph E to which he finally assented, he made no attempt whatever to submit his idea on any basis except that set forth in Form 2538, in which paragraph F expressly negated any disclosure in confidence.

6. No legal relationship was created by the August 9, 1955 communication, which stands only as a preliminary step of negotiation which led to the express, executed agreement of November 10, 1955, into which all preliminaries were merged and which stands as the single and complete agreement governing the legal relations of the parties (See Conclusion of Law I, R.246), subject only to the legal effect of Appellant's subsequent acts (e.g., expressions of reliance on such patent protection as he might get, laches in assertion of any claim, etc.).

On these facts, there is no basis for Appellant's claim of a confidential relationship or a breach of trust, and the Court below so held (FF XVI, ante p. 11). Appellant relied throughout on (a) his hope of protecting his idea by patents, and (b) his formal agreement of November 10, 1955 in which Appellee in paragraph E fully reserved (among other things) its freedom to use anything already available, whether or not included in Appellant's disclosure pursuant to that agreement.

The case therefore has no trace of the color which understandably exists when a company learns of an idea in confidence, or by wrongful means, uses that new idea, and then seeks to escape compensation to its teacher by raking up prior disclosures that had taught it nothing. Hence there is not presented here the ques-

tion whether or not in such circumstances the issuance of a patent (which ends any secrecy) terminates any liability for further use. See *Picard v. United Aircraft Corp.*, 128 F2d 632 at 637 (2 Cir., Hand J., 1942).

The fact situation here is kindred in all essentials to that which resulted in a dismissal of the claim in *Hisel v. Chrysler Corporation, et al*, 94 F Supp 996 (WD, Mo, 1951) affirmed 187 F2d 285 (8 Cir); *De Filippis v. Chrysler Corporation*, 53 F Supp 977 (SD, NY, 1944), affirmed 159 F2d 478 (2 Cir); *Carneval v. William Morris Agency, Inc.*, 98 US PQ 84 (Sup Ct. NY); and *Telechron, Inc. v. Parissi*, 120 F Supp 235 (ND, NY), affirmed 229 F2d 440 (2 Cir).

CONCLUSION

This action was rightly dismissed, and the judgment of the lower Court should be affirmed.

Respectfully submitted,

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Dated: December 14, 1967

CERTIFICATE

I certify that, in connection with the preparation of the foregoing brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

____
of Attorneys for Appellee

UNITED STATES COURT OF APPEALS

FOR THE NINTH CURCUIT

PHILIP J. KENNEY,	)	
	)	
Appellant,	)	
	)	
vs.	)	
	)	
AMERICAN CAN COMPANY,	)	
a corporation,	)	
	)	
Appellee	)	

No. 22236

APPELLANT'S ANSWER BRIEF

Appeal from the United States District Court

for the District of Oregon

HONORABLE GUS J. SOLOMON, Judge

Philip J. Kenney, Appellant
12405 S. E. Schiller
Portland, Oregon 97236
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UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PHILIP J. KENNEY, Appellant	)	No. 22,236
vs.	)	
AMERICAN CAN COMPANY, a corporation, Appellee	)	JURISDICTIONAL STATEMENT

The jurisdiction of the District Court was based upon diversity of citizenship and 28 U.S.C.A., Sec. 1332. The complaint alleges a controversy exceeding $10,000 between plaintiff, a citizen of Oregon and the defendant, a corporation incorporated under the laws of the State of New Jersey, having its principle place of business in a state other than the State of Oregon, and authorized to do business in Oregon.

STATEMENT PERTAINING TO ERRORS

The appellant is at a loss as how to make out a list of errors under the circumstances where the case was dismissed with prejudice and consequently was not heard in detail or on its merits.

The Appellant can only contend that in his opinion several of the findings of fact as prepared for the court at the court's direction (Appellee's Brief, p. 4) are in error.

The findings of fact that the Appellant believes are in error, completely or in part are listed as follows:

Parts I, II, V, VII, VIII, IX, X, XI, XV, XVII, XVIII, and

and XIX.

These are believed to be answered generally in the subject material contained in the Appellant's Answer Brief.

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

HILIP J. KENNEY, Appellant,	)	No. 22236
vs.	)	
MERICAN CAN COMPANY, a corporation, Appellee	)	APPELLANT'S ANSWER BRIEF

In answer to the Appellee's brief, the Appellant will try to over the subject matter that is basic to the complaint in a question and nswer form rather than trying to answer page by page or in verbatum.

It is thought that the basic questions and concluding facts of his issue are comparatively uncomplicated. The Appellant will endeavor to liminate a lot of unnecessary explanation of seemingly repetitious material y using a form of question and by attempting to keep the answers in line ith the above forecast. The Appellant is not trying to be factitious, but ecause of his lack of formal education finds it impossible to give any kind f comparable answer to the beautifully composed brief of the Appellee.

Beginning in the prefatory of the Appellee's brief, some doubt eems to exist as to the validity of the Appellant's statement that hs is ot representing himself by choice but rather through necessity, while at he same time expressing concern (seemingly) for the Appellant's plight. If his concern is sincere it is commendable. However, no such concern existed hen the court below suggested the appointing of a master prior to the trial, ut then withdrew the offer upon the objection of the Appellee. The Appellant

ceased trying to secure legal counsel after it became apparent to him that no ethical attorney would handle it on his own and apart from the appellant's legal counsel of whom he had terminated his contingency contract. This seemingly created an impasse, which left the appellant no alternative but to bring his grievance into the courts himself. The grounds upon which the appellant bases this assumption will be disclosed to the court if necessary.

In the third paragraph of the appellee's prefatory, further concern is shown in regard to possible prejudice arising from insufficiencies supplied by both the appellee and the a-pellant (inadvertantly of course) in presenting of his appeal in part or parcel. This too is noteworthy, but just what has caused this concern is not quite clear to the appellant, because appellant's complaint in the court below was dismissed with prejudice and consequently appellee has found much valuable support from it as can be seen in appellee's brief. The Appellant fails to find any mention in appellee's brief that the court below dismissed the appellant's case with prejudice but appellee does say (at one place, last paragraph, p. 3, A. b.) *The court below dismissed the complaint on particular but sufficient grounds*. So while this last concern is warming on one hand, it is seemingly confusing to the appellant on the other.

In reference to and in answer to appellee's inference to appellant's possible criticism of the findings of the court below, may it be unequivocally understood that the appellant in no way criticises the court below, but quite to the contrary. True, the appellant disagrees with the finding but certainly can understand that inadvertantly he contributed hereby to his own misfortune. The appellant is grateful that the court below was tolerant enough not to dismiss his complaint before it was heard or, in his opinion, he would have been in real difficulty.

The appellee's basic facts referred to and answered in this brief, which the appellant has elected to put into the form of questions and answers, believing that this will enable him to better present his complaint and reason for redress, are presented in the following:

1. Did not the appellee incur a duty owed the appellant in regard to his August 1955 disclosure by the identifying statement in the January 9, 1956 letter of determination that both the August 1955 and the November 1955 disclosures were *substantially the same*? That is to say, did this not amount to extending the same stipulated conditions of agreement that covered the formally accepted November 1955 disclosure, to cover the August 1955 by implied consent?

2. Is it not reasonable to conclude, upon review of the circumstances surrounding the submitting of the disputed August 1955 disclosure, that as one aspect of the above mentioned duty, it was the right of the appellant to expect a trust of his property which was not again disclosed after a misunderstanding had arisen? Therefore, it can clearly be seen it was not to be considered further. Would not a breach of trust arise also as a result of the breach of contract?

3. Appellee asserts (but the appellant denies) that the appellant has shown *only* a two part - tear tape constructure in the August 1955 disclosure and that this is the way the appellee's attorney employee read it, thus creating the pivot question upon which the other gives rise.

<u>Answer to #1.</u>

The appellee's attorney employee's statement in the January 9, 1956 letter of determination, wherein it says: *It now appears that your suggestion is substantially the same as that which you had earlier submitted informally.*

(P.T.O., p. 9, R 53) created and implied agreement subject to any part or parcel of the stipulation of the formally accepted agreement that the appellant chooses to invoke, the appellee's failure to secure for itself any reservation as to this implied agreement cannot now institute any defense derived therefrom to rectify its unauthorized use of the appellant's personal property which was in the care and owed trust of the appellee.

Because of this implied agreement on the part of the appellee and the resulting waiver of any right it would otherwise have, one cannot now rely on patents or any other thing in the public domain for a defense.

The ascerted proof of use of appellant's property as contained in the appellee's brief (p. 27, paragraph 1) lies in the old adage "the proof is in the pudding", namely that a sealing strip easy opener adhered to the can such as the appellee is using was suggested and disclosed to the appellee in the appellant's August 1955 submissions. And the unauthorized use whether it was advertantly accomplished or in advertantly still constitutes an unauthorized appropriation of the appellant's material resulting in a breach of contract, as well as a violation of the trust that appellee necessarily assumed.

Answer to #2.

It is not unreasonable for the appellant to have expected the appellee to regard with trust the appellant's personal property that was not released to it but rather was exposed to it under improper circumstances unintentionally. There was no occassion for the appellant to try to establish a knowledgeable confidentual relationship because there was no reason at the time for appellant to mistrust the appellee. The appellant simply assumed that by not disclosing it again formally, and in which the appellant left out any reference to

adhering it to the can body and can top, but instead elaborated on the flange securement concept and specified at the beginning of the November 1955 letter of disclosure that: *I am submitting this letter to explain my new idea in place of the letter of explanation dated August 9, 1955.* (P.T.O. p. 7, R 51) In spite of all this and the contention at the start notwithstanding, the appellee's knowledge concerning the seriousness of a confidential relationship, it still went ahead and reviewed, evaluated and commented on subject matter that was not released to it. This reiterates the appellant's contention that, in view of the above circumstances, it is not unreasonable for the appellant to assume a relationship of trust was due and existed from the appellee in regard to that part of the August 1955 material in dispute. Thus a breach of said trust incurred by appropriating something that belonged to the appellant when it had no authority to do so.

Answer to #3.

In answer to this pivot statement, as termed by the appellant, the appellant shall attempt to establish the fact that appellee has misconstrued said disclosure of August 1955, which is shown out of context (appellee's Brief, p. 20).

The fallacy of the appellee's statement that the appellant shows *only the two-part tear-tape constructure* (Appellee's Brief, p. 23) and was read as such by the appellee's attorney employee, a Mr. George W. Rieber, is contradicted and refuted in a comment by Mr. Rieber in his letter of October 26, 1955 (P.T.O. p. 6 - R 50) after having made a cursory search and wherein he says in the second paragraph, second line, *that the tearing or opening strip which you suggested*, denies the above stated claim of the appellee, because Mr. Rieber has definitely established here that he read it as some other than just a tear tape. This fact in itself strikes and destroys

all of the appellee's basic defense because in the opinion of the appellant the appellee must base all of it's defensive structure on this basic assertion. This can be concluded from the rest of this statement.

The appellant contends that in order for the appellee to have created such a base to fabricate its defensive structure it had to necessarily misconstrue the disclosure of August 1955 and show it out of context in vain hope that the real meaning would not become apparant. The act of relying mutely on mistakes in punctuation and capitalization to confirm this contention, with total disregard that the use of a conjecture at the end of the sentence, completely changed the meaning. Then, rather mutely again, implied that the conjecture *if so required* (See paragraph 2 of the August 1955 letter of disclosure, P.T.O., p. 4 - R. 48) was the beginning of a sentence. The use of these conjectures at the end of an ascerted method or means is pertinent to the appellant's style. This is verified by a simple comparison of both the August 1955 and November 1955 letters of description. The idea for an easy release adhesive for the purpose of creating an easy peel sealing strip was both known, desired and taught as can be seen in the third paragraph of the August 1955 letter od description (which the appellee has left out of its brief). It is casually referred to in part elsewhere in the appellee's brief as a paper tape covering. A simple repeat of the experiment mentioned in the last paragraph of the August 1955 letter will disclose a firmly held adhesive coated strip that could be peeled easily from the can. Aluminum foil was suggested in place of paper because of it's inherent characteristics. The other designs followed the appellant's desire to create a keyless type can opener. The appellant was trying to interest the appellee by giving examples, not chemical formula or engineering facts. Appellee, strangely enough, has gone so far as to read into the disclosure a *permanent adhesion* (p. 8, A,b),

suggesting a permanent type of adhesive to be used. This is interesting because the appellant is still at a loss as to how the appelle came to this conclusion, but failed to see that the conjecture of, if so required, in the second paragraph of said letter of August 1955 actually described a tape consisting of a single strip of aluminum and if so required, a plastic tape could be adhered thereto.

Conclusion:

It can be readily seen from the foregoing account that appellee not only assumed a duty of trust which id did not keep to the appellant, but also is in breach of its implicit agreement to pay for anything disclosed to it and used substantially, as is contained and provided for in paragraph (G) of the formal agreement. Under the conditions imposed by an implied agreement, the provision set forth in said paragraph (G) would necessarily make it mandatory to compensate the appellant irregardless of where appellee discovered this method as long as appellant had disclosed it prior to said use. Therefore, appellant does not have to prove that it was taken from his disclosures to be compensated, as appellee infers, unless appellee could prove that no such disclosure existed in the August 1955 description. Such proof has been asserted but is without substance because appellee stated (see Appellee's Brief, p. 23) that the appellant *only* disclosed *a multiple tear tape constructure* and that this is the way Mr. George W. Rieber read it. However, we see a direct contradiction to this in Mr. George W. Rieber's own words in the letter of October 26, 1955 (P.T.O. p. 6 - R 50).

Thus, the appellee, having failed to establish that the appellant did not disclose the type of easy opening tape seal in dispute, and consequently

has no excuse or defense for the complaint against it, the appellant affirms its prayer that this court find it's request for reversal of the decision of the court below.

Philip J. Kenney, Appellant, in
propria personna

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

PHILIP J. KENNEY, appellant vs. AMERICAN CAN COMPANY, a corporation, appellee	)	No. 22236 CERTIFICATE

I certify that in connection with the preparation of this Brief I have examined Rules 18, 19, and 39 of the United States Court of Appeals for the Ninth Circuit and that in my opinion the foregoing brief is in full compliance with those rules.

Philip J. Kenney

Philip J. Kenney, appellant,
perporia persona